

EUROPEAN ECONOMY

COMMISSION OF THE EUROPEAN COMMUNITIES
DIRECTORATE-GENERAL FOR ECONOMIC AND FINANCIAL AFFAIRS

Supplement A
Recent economic trends
No 11/12 – November-December 1990



*In this number:
Economic forecasts
for 1991 and 1992¹*

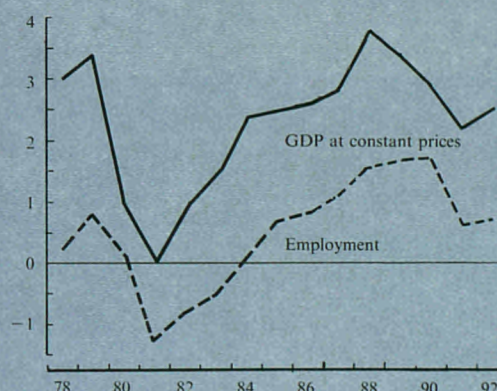
THE 1991/92 ECONOMIC SITUATION IN BRIEF.

The main features of the Commission services' autumn economic forecasts are as follows:

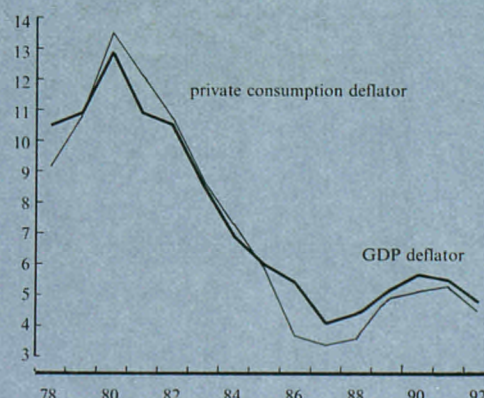
- *Economic growth in the Community decelerates from 3.3 % in 1989 to 2.9 % in 1990 and 2.2 % in 1991. A pick-up to 2.5 % is expected for 1992.*
- *Investment growth slows down in 1990 and 1991, but remains the fastest growing component of domestic demand.*
- *Employment creation in 1990 will match the record rate of 1989 (1.6 %), but will be followed by a slower growth in 1991 and 1992. The unemployment rate stabilizes at around 8.5 % - 9 % of the labour force for the period 1990-92.*
- *The budgetary position in the Community deteriorates in 1990 and 1991.*
- *The Community's external balance goes into a deficit, but internal imbalances are reduced.*
- *Uncertainties surrounding the forecast are unusually high due to developments in the Gulf. Also the state of the United States economy and developments in Germany are considerable sources of uncertainty.*

¹ This is a summary of the results of Commission services' autumn forecasting exercise, based on data up to 19 November 1990. The earlier forecasts for 1990-91 were summarized in Supplement A, No 4/5, of April-May 1990.

GRAPH 1: GDP and employment growth in the Community, annual percentage growth rates



GRAPH 2: Inflation in the Community, annual percentage changes

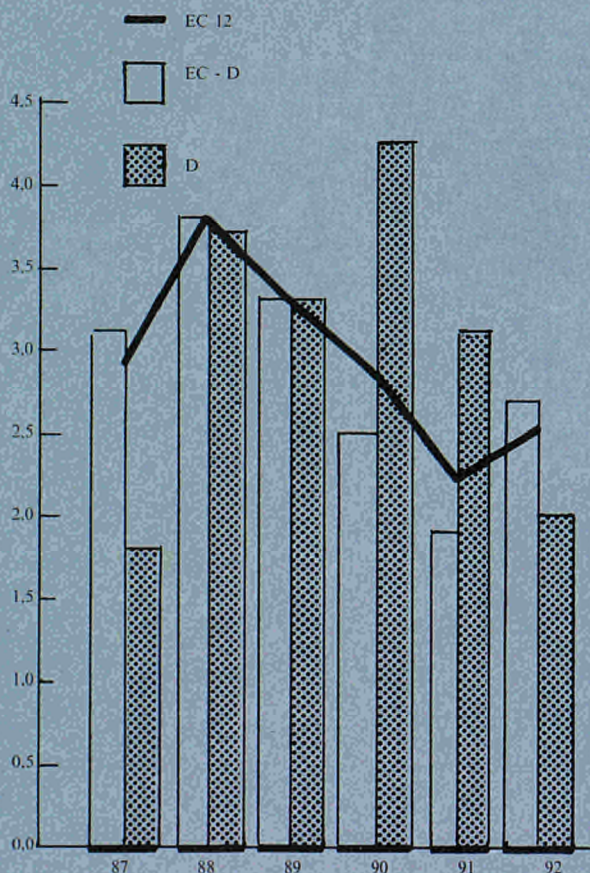


The outlook for the Community economy has become less favourable. — Internal disequilibria and the effects of the increase in the price of oil are affecting the rate of growth. GDP, which had expanded by 3.3 per cent in real terms in 1989, is now forecast to increase by 2.9 % in 1990. Economic activity will decelerate further in 1991 when the rate of expansion of GDP should be around 2.2 %. On the basis of the assumptions which underlie the forecast, GDP should grow by around 2.5 % in 1992. Inflation, which is expected to accelerate in 1990 and 1991, has become a major policy concern. Employment is still increasing, but only enough to stabilise the unemployment rate at around 8.5 %-9 % of the labour force for the period 1990-92.

The slowdown in economic activity is not entirely explained by the increase in the price of oil. Other factors — such as the necessary tightening of monetary policy to combat inflationary expectations, the appreciation of Community currencies and the deceleration of world trade — often play a greater role. Economic growth remains strong, however, in West Germany thanks to the positive stimulus emanating from the German unification process.

A comparison with the Spring 1990 forecast shows no big revisions in GDP growth for 1990, but a substantial downward revision for 1991. This is mainly due to lower forecasts for investment growth and the foreign balance. The inflation forecast for both 1990 and 1991 has been revised upwards by 0.4 and 1 percentage points (deflator of private consumption) respectively. The forecast for the Communities balance of payments position has also deteriorated. The spring 1990 current account forecast of surpluses of 0.2 % and 0.3 % of GDP for 1990 and 1991 have been replaced by deficit forecasts of 0.3 % and 0.8 % respectively.

GRAPH 3: GDP in the Community,
annual real percentage growth rates



A note on the figures for Germany

All the data presented in this document relate to the Federal Republic of Germany prior to German unification. Due to major statistical problems it is not yet possible to present reliable data for the new German state.

These statistical problems are manifold. Basically they have their origin in the fact that the former GDR was a centrally planned economy. The statistical concepts used there, as in other centrally planned economies, were very different from the standard European National Accounts. More specifically, the concept of Net Material Product (NMP), unlike the familiar Gross Domestic Product (GDP), excludes all 'immaterial' services (health, education, financial services).

Converting the available GDR statistics into western definitions is extremely difficult. Very often the necessary basic information is either unreliable or not available. This is the case, for instance, for foreign trade statistics which were considered to be important for national security and therefore not publicly available. In addition, the values indicated in the old GDR statistics carry little economic significance since the whole price structure was distorted. Prices were fixed arbitrarily and bore little relation to the relative scarcity of goods. Attributing proper prices to the physical quantities of goods produced is also difficult since most goods would not have met the standards of the western market thus making it almost impossible to estimate a realistic price.

The reorganisation of the civil service resulting from the unification will certainly lead to the setting up of statistical instruments comparable to those of the other Community economies. But, this process will take time. Waiting for such statistical tools, an attempt has been made to analyse and quantify, at least for the most important aggregates, the transformation process of the East German economy on the basis of the few available indicators (retail turnover, exports to CMEA countries, electricity consumption, etc.). The result, however, can only be considered no more than a possible scenario and should therefore be treated with the necessary caution.

It is expected that the East-German economy would go through a drastic adjustment process. A collapse of industrial production is expected to take place, mainly in the second half of 1990, as the production of uncompetitive goods is halted. Gross domestic product in real terms could decline by about one third. The fall in activity should bottom out in the first half of 1991, whereafter a recovery is expected. This scenario still leads to another drop in GDP for 1991 as a whole followed by a strong boost in output in 1992.

Unemployment is expected to reach 1.5 mio in 1991 and 1992 in East Germany. The figure for short-time work could reach 2 million in 1991 and about 1.5 mio in 1992.

Estimating GDP growth for the whole of Germany is even more difficult and delicate than for the former German Democratic Republic alone. The aggregation of the growth rates of West- and East-Germany requires information on the levels of GDP. Given the difficulties already mentioned in translating old GDR statistical definitions into western ones, estimating the level of GDP in the former GDR is actually more difficult and hazardous than forecasting its growth profile. Therefore no reliable figures for the growth rate of the whole of Germany can be produced at this present time.

TABLE 1: Gross domestic product, volume (percentage change at constant prices on preceding year, 1961-92) *

	1961-73	1974-82	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
B	4,9	2,0	0,4	2,1	0,9	1,6	1,9	4,3	4,0	3,5	2,2	2,7
DK	4,3	1,4	2,5	4,4	4,3	3,1	-0,7	-0,4	1,3	0,9	0,9	1,8
D	4,4	1,6	1,5	2,8	2,0	2,3	1,8	3,7	3,3	4,3	3,1	2,0
GR	7,7	2,7	0,4	2,8	3,1	0,8	-0,1	4,0	2,6	1,2	1,0	1,5
E	7,2	1,7	1,8	1,8	2,3	3,3	5,5	5,0	4,9	3,5	2,5	3,2
F	5,4	2,4	0,8	1,5	1,8	2,1	1,8	3,3	3,6	2,5	2,5	2,8
IRL	4,4	4,3	-0,2	4,4	2,3	-0,3	4,9	3,7	5,9	4,5	2,3	3,7
I	5,3	3,1	1,1	3,0	2,6	2,5	3,0	3,9	3,2	2,6	2,3	2,7
L	4,1	1,0	3,0	6,2	2,9	4,4	2,8	4,3	6,1	3,2	2,9	3,3
NL	4,8	1,6	1,4	3,1	2,6	2,0	1,1	2,7	4,0	3,4	2,0	2,5
P	6,9	2,8	-0,2	-1,9	2,8	4,1	5,3	3,9	5,4	4,2	3,2	3,8
UK	3,2	0,8	3,6	2,1	3,7	3,5	4,7	4,1	2,2	1,5	0,7	2,4
EUR	4,8	1,9	1,6	2,3	2,5	2,6	2,9	3,8	3,3	2,9	2,2	2,5
USA	4,0	1,6	3,9	7,2	3,8	2,8	3,7	4,6	3,0	1,0	0,3	1,0
JAP	9,6	3,6	3,2	5,0	4,7	2,5	4,2	5,7	4,8	6,0	4,2	4,1

TABLE 2: Deflator of gross domestic product (percentage change on preceding year, 1961-92) *

	1961-73	1974-82	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
B	4,1	7,1	5,6	5,2	6,0	3,5	2,1	2,0	4,5	3,3	4,4	4,2
DK	7,0	10,0	7,6	5,7	4,3	4,7	5,1	4,9	4,5	3,0	2,3	1,8
D	4,3	4,6	3,3	2,0	2,2	3,1	2,0	1,5	2,6	3,7	4,4	4,3
GR	4,5	17,2	19,1	20,3	17,7	17,8	14,2	14,5	15,5	20,8	17,7	15,1
E	7,1	16,7	11,6	10,9	8,5	10,9	5,9	5,7	6,9	7,4	6,8	6,0
F	5,1	11,2	9,6	7,3	5,8	5,2	3,0	3,3	3,4	3,5	3,4	3,3
IRL	7,2	14,6	10,7	6,5	5,1	6,1	2,0	2,9	5,1	2,1	3,3	2,9
I	5,5	17,6	14,9	11,4	8,9	7,5	6,1	6,0	6,3	7,1	6,7	5,9
L	4,4	7,3	6,8	4,4	3,0	1,7	0,9	2,2	3,8	3,1	3,8	4,0
NL	6,0	6,8	1,9	1,9	1,8	0,5	-0,4	1,9	1,5	2,9	2,8	2,5
P	3,9	19,8	24,6	24,7	21,7	20,5	11,2	11,6	12,5	13,9	12,6	11,7
UK	5,1	14,9	5,3	4,6	5,6	3,5	4,8	6,6	7,0	7,7	6,8	4,8
EUR	5,2	12,0	8,5	6,9	6,0	5,5	4,1	4,5	5,1	5,7	5,5	4,8
USA	3,6	8,1	3,4	3,6	2,7	2,5	2,9	3,2	4,1	4,2	5,5	5,7
JAP	6,0	6,3	0,8	1,2	1,4	1,8	-0,2	0,4	1,5	1,6	2,1	2,0

TABLE 3: Final domestic demand, volume (percentage change at constant prices on preceding year, 1961-92) *

	1961-73	1974-82	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
B	4,8	1,6	-2,5	2,3	0,6	3,0	3,6	4,3	5,0	4,0	2,6	2,8
DK	4,6	0,4	1,4	5,1	5,4	5,5	-2,8	-2,2	0,8	-0,8	-0,1	1,0
D	4,5	1,3	2,3	2,0	0,9	3,5	2,9	3,8	2,7	3,7	3,3	2,8
GR	8,1	1,8	0,5	0,6	4,9	-2,0	-1,1	5,6	4,2	2,1	1,1	1,5
E	7,8	1,3	-0,3	-0,9	3,0	6,6	9,0	7,3	7,7	5,3	3,1	3,8
F	5,5	2,0	-0,6	0,5	2,3	3,9	3,0	3,5	3,1	2,9	2,6	3,1
IRL	5,1	3,0	-2,2	1,1	0,4	1,3	-0,4	0,2	6,1	6,4	0,8	4,3
I	5,3	2,5	0,2	4,0	2,9	3,1	4,7	4,6	3,3	2,9	2,7	3,2
L	4,0	1,8	-0,8	2,3	0,3	4,5	5,2	2,7	5,3	5,2	4,5	3,9
NL	4,9	1,2	1,6	1,7	3,2	2,1	2,1	2,0	4,3	3,9	1,7	2,1
P	7,3	2,9	-5,7	-6,7	0,9	8,3	10,4	7,4	4,1	5,0	3,4	4,2
UK	3,2	0,5	4,7	2,6	2,8	4,2	5,2	7,3	3,1	0,9	0,4	2,7
EUR	4,9	1,5	1,1	1,8	2,3	3,8	4,1	4,8	3,6	3,0	2,3	3,0
USA	4,1	1,4	5,4	9,0	4,0	3,5	3,2	3,2	2,4	0,6	-0,1	0,7
JAP	9,9	2,7	1,8	3,8	4,0	4,0	5,1	7,5	5,8	6,0	4,2	4,3

TABLE 4: Gross national product at current market prices (percentage change on preceding year, 1961-92) *

	1961-73	1974-82	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
B	9,2	9,0	6,0	7,7	6,6	5,5	4,2	6,3	8,6	6,9	6,7	7,1
DK	11,6	11,2	10,6	9,6	8,8	8,0	4,4	4,6	5,6	3,7	3,4	4,1
D	8,9	6,3	5,2	5,3	4,2	5,5	3,7	5,2	6,5	7,9	7,7	6,3
GR	12,5	20,3	18,1	22,4	20,4	18,1	14,4	19,3	18,2	22,5	18,9	16,9
E	14,8	18,5	13,5	13,0	11,5	14,8	11,9	10,7	12,3	11,2	9,5	9,5
F	10,7	13,8	10,1	8,6	7,7	7,7	5,0	6,8	7,0	6,0	6,1	6,2
IRL	11,7	18,4	9,2	8,8	6,1	6,6	7,8	4,2	10,2	7,2	5,9	6,8
I	11,0	21,1	16,2	14,8	11,7	10,2	9,4	10,1	9,5	9,8	9,1	8,7
L	9,0	11,8	12,7	9,4	6,7	3,5	1,7	7,3	7,3	5,1	5,5	6,1
NL	11,1	8,5	3,6	4,8	4,8	2,1	0,7	4,4	6,1	6,5	5,0	5,0
P	11,2	22,4	24,9	21,1	26,1	28,1	18,2	16,5	19,0	19,7	16,4	15,9
UK	8,5	15,7	9,4	6,8	9,4	7,2	9,4	11,2	9,1	8,8	7,5	7,2
EUR	10,1	12,0	6,9	8,0	7,3	5,9	5,3	8,1	8,8	7,7	7,7	7,2
USA	7,7	9,8	7,3	10,8	6,3	5,2	6,6	7,9	6,6	5,2	5,7	6,8
JAP	16,2	10,2	4,0	6,4	6,4	4,4	4,2	6,2	6,5	7,7	6,4	6,2

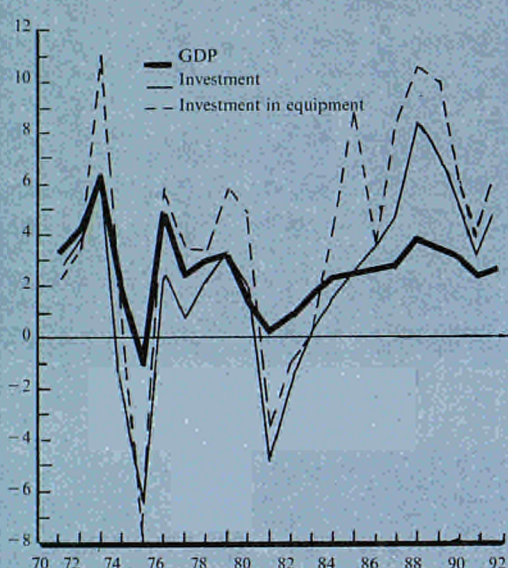
* Notes: see page 15.

GDP growth slows down. —The growth rate of real domestic demand in the Community should decelerate from 3.6 % in 1989 to 3 % in 1990 and 2.3 % in 1991. A certain pick up is expected for 1992. A similar pattern is experienced by most industrialized countries. Notwithstanding a marked deceleration of its growth, gross fixed capital formation remains the fastest growing component of domestic demand.

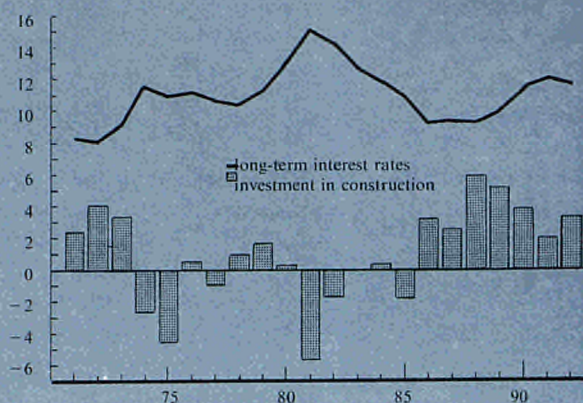
Community goods and services exports to the rest of the world are forecast to increase by about 5.6 % in volume terms in 1990, somewhat less than in 1989 (6.7 %). The decline of the dollar should, apparently, have only a limited impact in 1990. In 1991 and 1992 the growth of extra-EC exports would further decelerate to 4.6 % and 3.2 % respectively.

Extra-EC import volumes are expected to increase by 6.3 % in 1990, after an increase of 8.9 % in 1989. An even slower growth

GRAPH 4: GDP and investment growth in the EC; annual percentage growth rates



GRAPH 5: Investment in construction (annual percentage growth rate) and long-term interest rates



rate is forecast for 1991 (4.9 %), given the weakening of domestic demand in the Community.

A slowdown in investment growth in 1990 and 1991. — *Gross fixed capital formation* is expected to expand in 1990 and 1991 by 4.4 % and 2.9 % respectively in real terms. This implies a marked deceleration when compared with 1988 and 1989 (8.4 % and 6.8 % respectively). However, the expansion of gross fixed capital formation remains stronger than that of GDP, which shows the strength of the underlying investment trend.

Several factors contribute to this temporary weakening of investment growth. The tightening of monetary policy, following the acceleration of inflation in several Member States, is certainly one of the main explanations. Moreover, the less favourable outlook for the Community economy and an easing of capacity utilisation are not creating a favourable investment climate. If one excludes the United Kingdom, where investment will fall both in 1990 and 1991, about 1 % can be added to the growth in fixed capital formation for the rest of the Community in both years.

TABLE 5: Investment in construction, volume (percentage change on preceding year, 1974-92) *

	1974-82	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
B	-2.0	-6.4	-6.1	-0.8	3.1	3.3	15.0	9.6	4.7	-0.2	3.2
DK	-6.5	1.9	8.8	8.9	18.0	-0.8	-3.1	-4.2	-6.1	-2.2	-0.2
D	-1.3	1.7	1.6	-5.6	2.7	-0.3	4.7	5.1	5.2	2.1	2.2
GR	-4.3	5.3	-6.9	3.1	-0.7	-8.0	7.6	2.1	2.0	2.0	3.5
E	-1.4	-2.0	-5.2	2.0	6.5	10.0	12.6	13.3	11.5	6.0	7.0
F	-0.6	-3.4	-2.9	-0.4	3.1	3.7	6.2	4.5	3.0	2.1	3.4
IRL	3.6	-14.4	-4.9	-9.5	-3.1	-6.7	-0.7	9.8	10.6	6.7	6.8
I	-1.9	1.5	-1.0	-0.5	1.1	-0.4	3.7	3.6	2.5	2.5	2.5
L	-1.8	-12.9	-3.1	3.4	8.9	-0.5	9.9	8.8	8.2	5.1	4.6
NL	-2.4	-3.9	3.8	-0.1	5.0	0.7	11.8	2.6	0.8	-1.6	2.4
P	—	-3.3	-9.2	-6.0	8.7	9.4	10.1	7.5	7.0	4.5	5.5
UK	-2.0	5.0	6.1	-2.4	6.0	10.4	6.1	-0.4	-2.2	-0.8	1.6
EUR¹	-1.6	-0.1	-0.4	-1.7	3.7	3.1	6.4	4.7	3.6	2.0	3.2

¹ EUR-11 up to 1981, EUR-12 from 1982 onwards.

TABLE 6: Investment in equipment, volume (percentage change on preceding year, 1974-92) *

	1974-82	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
B	3.0	-2.6	13.6	2.3	4.9	5.8	17.7	19.0	10.0	8.0	8.3
DK	0.9	2.2	17.9	16.2	16.6	-14.5	-7.5	5.5	1.8	2.5	3.5
D	1.1	5.6	-0.2	9.9	4.3	5.6	7.7	9.7	11.4	7.1	6.1
GR	1.6	-8.5	-4.2	7.7	-12.6	-7.7	10.8	17.3	4.0	4.0	6.0
E	-0.2	-4.7	-7.3	9.1	15.8	24.2	16.5	14.1	5.4	4.0	5.2
F	0.8	-3.1	-0.6	10.0	2.8	4.1	8.9	6.9	4.5	4.1	5.3
IRL	3.4	-3.3	4.2	-6.0	-0.3	1.8	5.6	14.1	9.8	6.3	6.5
I	3.6	-3.2	12.0	4.0	1.6	14.6	6.4	6.3	3.4	4.0	5.3
L	-0.5	-6.9	2.7	-20.4	74.6	13.9	-5.4	14.9	12.0	6.3	5.8
NL	-0.4	9.8	8.8	15.5	10.1	1.3	6.8	5.5	5.5	3.5	2.6
P	—	-11.1	-29.6	-4.5	14.2	26.8	23.2	9.0	11.0	8.0	8.5
UK	0.1	4.8	11.4	10.6	-1.9	7.6	17.7	10.0	-0.3	-2.3	3.3
EUR¹	1.2	0.3	4.0	8.4	3.5	8.4	10.4	8.9	5.1	3.7	5.2

¹ EUR-11 up to 1981, EUR-12 from 1982 onwards.

* Notes: see page 15.

TABLE 7: Total investment, volume (percentage change on preceding year, 1961-92) *

	1961-73	1974-82	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
B	5,1	-0,7	-4,4	1,7	0,6	4,2	5,2	16,0	13,6	7,0	3,5	5,6
DK	6,5	-4,0	1,9	12,9	12,6	16,2	-7,4	-6,5	-0,1	-2,6	-0,0	1,6
D	4,0	-0,5	3,2	0,8	0,1	3,3	2,2	5,9	7,1	8,0	4,4	4,0
GR	10,0	-1,9	-1,3	-5,7	5,2	-6,2	-7,8	9,0	8,6	2,9	2,9	4,7
E	10,4	-1,1	-2,5	-5,8	4,1	10,0	14,6	14,0	13,6	8,9	5,2	6,2
F	7,5	-0,0	-3,3	-2,6	3,4	3,5	3,8	7,5	5,9	3,8	3,3	4,5
IRL	9,9	3,6	-9,3	-1,3	-8,2	-3,0	-0,7	-0,3	12,1	10,2	6,5	6,7
I	4,7	0,3	-0,9	4,5	1,4	1,6	6,8	4,9	5,1	3,0	3,3	4,1
L	4,9	-1,2	-11,5	0,5	-6,1	28,7	6,5	3,2	11,5	10,0	5,6	5,2
NL	5,3	-1,8	1,9	5,2	6,7	7,9	0,7	9,8	3,9	2,9	0,8	2,5
P	7,9	1,7	-7,1	-17,4	-3,5	10,9	15,1	15,0	8,3	9,1	6,3	7,1
UK	4,6	-1,0	5,0	8,6	3,9	1,9	8,8	13,1	4,8	-1,2	-1,6	2,5
EUR	5,7	-0,5	0,0	1,3	2,4	3,8	5,5	8,4	6,8	4,4	2,9	4,2
USA	4,5	-0,6	8,8	15,9	6,9	2,0	4,1	5,4	1,6	-0,4	-1,0	3,3
JAP	14,1	1,4	-0,3	4,9	5,8	5,8	10,3	13,4	10,8	9,9	5,0	6,0

TABLE 8: Private consumption, volume (percentage change on preceding year, 1961-92) *

	1961-73	1974-82	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
B	4,3	2,2	-1,6	1,2	2,0	2,5	2,8	2,4	3,8	4,0	3,0	2,6
DK	3,8	0,8	2,6	3,4	5,0	4,1	-1,2	-1,1	-0,4	0,6	0,6	1,3
D	5,0	2,2	1,6	1,9	1,6	3,4	3,4	3,0	1,7	4,9	3,6	3,1
GR	6,7	3,4	0,3	1,7	3,9	0,3	0,9	3,7	2,6	1,7	0,9	1,0
E	7,2	1,8	0,3	-0,4	2,4	3,6	5,5	4,5	5,5	4,0	2,7	3,1
F	5,2	2,6	0,9	0,9	2,2	3,4	2,5	2,5	3,1	3,0	2,7	2,9
IRL	3,8	2,2	0,9	1,1	3,7	2,5	2,5	3,2	5,2	3,5	3,5	3,7
I	6,0	3,4	0,5	2,3	3,2	4,5	4,3	4,2	3,8	3,0	2,8	3,2
L	4,5	3,0	0,3	1,1	2,5	2,4	4,1	1,8	3,3	3,7	4,8	3,6
NL	5,6	2,3	0,7	0,8	2,4	3,2	3,1	1,2	2,5	4,1	2,3	2,5
P	6,0	2,3	-1,4	-2,9	0,7	5,6	5,4	6,6	3,3	4,5	3,0	3,3
UK	3,0	1,0	4,3	1,8	3,7	5,6	5,4	6,9	3,9	2,4	1,1	1,9
EUR	4,9	2,2	1,4	1,4	2,6	4,0	3,8	3,9	3,3	3,4	2,5	2,7
USA	4,2	2,2	5,0	4,8	4,7	4,1	2,7	3,4	2,7	0,8	-0,1	0,9
JAP	8,8	3,4	3,2	2,7	2,7	3,1	4,2	5,0	3,5	4,2	4,0	3,7

TABLE 9: Real compensation of employees per head¹ (percentage change on preceding year 1961-92) *

	1961-73	1974-82	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
B	5,1	2,5	-1,0	0,9	-1,3	4,4	0,2	-0,1	0,5	2,6	2,5	2,6
DK	3,8	0,5	1,3	-0,8	0,4	1,4	3,9	-0,4	-1,3	0,4	-0,3	1,0
D	5,4	1,7	0,5	1,0	1,0	4,1	2,4	1,9	-0,3	1,9	1,2	0,8
GR	6,5	3,9	2,8	3,8	5,8	-7,5	-3,7	2,8	3,9	-2,1	-1,5	-1,6
E	7,5	2,8	1,3	-0,9	1,1	0,7	0,9	1,3	-0,8	1,3	0,7	1,0
F	4,8	2,8	0,4	0,4	0,6	1,4	0,2	1,0	1,5	2,0	1,0	1,6
IRL	4,7	2,4	3,2	3,3	3,1	0,5	3,4	1,6	-1,5	1,5	1,9	1,7
I	6,3	2,4	0,8	-0,1	1,0	1,6	4,1	3,8	3,0	2,6	2,5	2,2
L	4,1	2,3	-1,4	0,2	-0,9	4,0	2,3	0,5	-0,2	2,6	1,2	2,3
NL	6,0	1,5	0,2	-1,9	-0,8	1,4	1,8	0,7	-1,5	2,2	1,5	1,6
P	6,7	3,0	-3,2	-5,6	2,6	6,8	7,2	3,1	0,2	3,3	2,7	2,4
UK	3,3	1,5	3,5	0,3	1,6	2,8	2,2	2,1	2,5	3,2	2,2	1,8
EUR	5,0	2,1	1,1	0,1	1,0	2,3	2,0	1,8	1,1	2,2	1,6	1,5

¹ Deflated by private consumption prices.

TABLE 10: Public consumption, volume (percentage change on preceding year 1961-92) *

	1961-73	1974-82	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
B	5,5	2,5	-0,1	0,2	2,6	1,2	1,2	-1,4	-0,7	0,7	0,3	0,0
DK	5,8	3,8	-0,0	-0,4	2,5	1,5	2,0	-0,4	-0,8	-0,6	-1,5	-1,2
D	3,8	1,7	0,1	1,1	1,6	2,3	1,2	0,4	-0,9	2,2	0,1	-1,4
GR	6,2	6,0	2,7	3,0	3,2	-0,6	1,8	5,6	5,0	1,5	1,0	1,0
E	4,5	5,1	3,9	2,9	4,6	5,7	8,7	5,0	5,5	4,3	3,0	3,0
F	4,0	3,3	2,0	1,2	2,2	1,7	2,9	2,2	1,5	2,2	1,8	1,9
IRL	5,2	4,9	-0,4	-0,7	1,6	2,4	-3,8	-4,3	-3,5	0,5	0,5	0,5
I	4,0	2,7	2,9	2,5	3,5	2,9	3,6	3,0	0,5	1,5	1,5	1,8
L	3,4	2,5	1,9	2,2	2,0	3,3	2,6	3,1	3,0	3,0	3,0	3,0
NL	2,8	2,7	1,0	-0,8	1,3	2,5	2,0	-0,0	-0,0	0,4	-0,1	-0,1
P	9,1	7,7	3,7	0,1	0,1	7,2	4,9	5,3	1,5	1,5	1,0	1,5
UK	2,5	1,6	2,0	1,0	-0,0	2,1	1,2	0,4	0,8	2,5	1,9	1,6
EUR	3,7	2,6	1,8	1,3	2,0	2,4	2,6	1,7	0,8	2,1	1,3	0,9
USA	3,1	1,6	3,5	4,5	5,3	4,9	2,7	2,3	2,7	2,2	0,3	-0,9
JAP	5,8	4,2	2,9	2,8	1,7	6,2	-0,7	2,2	2,1	2,5	2,2	1,3

* Notes: see page 15.

In 1992 investment growth should pick up again, reaching 4.2 % for the Community as a whole. Even a stronger growth rate (6 % or more) is expected for Spain, Ireland and Portugal, contributing to the catching up of these countries.

The slowdown in gross fixed capital formation is particularly pronounced for *equipment*. After the high rates of real increase in 1988 (12.6 %) and 1989 (8.9 %), equipment investment growth for the Community as a whole will fall to 5.1 % in 1990.

The deceleration in 1990 is clearly apparent in Belgium, Greece, Spain and the United Kingdom, where growth was particularly pronounced in 1989. In Germany, on the other hand, capital formation in equipment is forecast to rise by 11.4 %, even stronger than in 1989 (9.7 %). In 1991, a further decline for the Community as a whole is expected under the influence of tight monetary policy and lower demand growth, whereafter investment in equipment should pick up again somewhat in 1992.

Gross fixed capital formation in *construction* should also decelerate further in 1990 and 1991. The increase in interest rates has a serious negative effect on residential construction.

Consumption remains strong in 1990, but decelerates in 1991. —

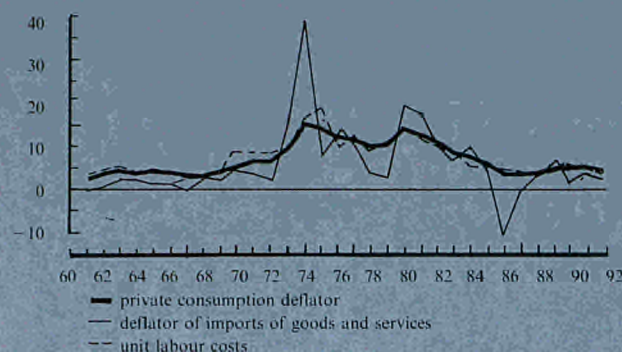
Private consumption should increase in 1990 by about 3.4 % in real terms, much like 1989. The strong expansion in Germany, 4.9 % in 1990 compared to 1.7 % in 1989, compensates for the slowdown in several other countries. For 1991 and 1992, for the Community as a whole, a slowdown is expected to around 2.5 % in both years.

Government consumption should grow by 2.1 % in volume terms in 1990, significantly more than in 1989 (0.8 %) but in line with the trend of the last number of years. Developments in Germany, where public consumption will grow by 2.2 % in 1990 after a fall of 0.9 % in 1989, are mainly responsible for this. In several other countries (Belgium, France, Ireland, Italy, the Netherlands and the United Kingdom) government consumption also grows at a quicker pace than in 1989. For 1991 and 1992 an increase in government consumption of about 1 % is forecast for the Community as a whole as consolidation efforts continue and exceptional factors are removed.

GRAPH 6: Labour force, employment and unemployment, EUR-12, annual change in % except unemployment rate



GRAPH 7: Inflation in the Community, factors influencing inflation, annual percentage changes



Employment increases significantly in 1990, despite the slowdown in GDP growth. —

Employment is expected to continue expanding at a substantial rate. Employment creation in 1990 will match the record rate of 1989 (1.6 %). A slowdown in economic activity will result in reduced but respectable rates of employment growth of about 0.7 % for both 1991 and 1992.

The strong employment performance in 1990 will permit a further decline in the rate of unemployment from 8.9 % in 1989 to 8.5 % in 1990, despite a large increase in the civilian labour force. This growth in the civilian labour force is mainly due to an increase in the population of working age, which results to a large extent from the immigration flows into the Federal Republic of Germany. In 1991 and 1992 the unemployment rate will grow to 8.8 %, as employment increases will not be sufficient to offset continuing large additions to the labour force.

A further acceleration in inflation in 1990 and 1991. —

The inflation picture of the Community has become more disturbing since the Spring forecasts. Inflation, as measured by the deflator of private consumption, is expected to continue to accelerate reaching 5.1 % and 5.3 % in 1990 and 1991 respectively, after 4.9 % in 1989. This compares badly with the trough of 1987 when prices rose by only 3.5 %.

The acceleration of inflation in 1990 co-exists with a slightly less favourable convergence picture for the Community as a whole. However, the convergence performance of the initial narrow-band EMS countries improves, mainly due to the decline of inflation in Denmark.

TABLE 11: Real unit labour costs¹ (indices 1980 = 100) *

	1961-70	1975	1979	1981	1990	1991	1992
B	87,5	96,8	98,8	100,6	88,3	88,8	88,4
DK	98,3	102,7	98,4	98,8	92,1	91,8	91,6
D	96,1	102,6	98,3	100,3	90,8	90,0	89,2
GR	104,4	91,7	101,8	106,3	103,5	101,3	98,0
E	95,7	100,8	101,7	100,5	86,1	85,7	85,0
F	93,4	98,9	98,1	100,8	91,1	90,6	90,0
IRL	96,2	100,3	96,7	96,5	80,6	80,9	79,5
I	97,1	105,8	101,1	102,4	98,0	98,2	97,8
L	84,1	101,4	99,1	102,1	94,2	94,5	94,5
NL	93,9	103,3	100,3	97,3	86,8	87,0	87,1
P	86,3	120,6	101,0	102,3	82,2	82,0	80,7
UK	98,4	109,0	98,0	99,7	99,2	100,0	99,4
EUR	96,8	103,8	99,2	100,7	93,0	92,8	92,2
USA	96,9	98,2	99,0	98,6	99,0	100,4	100,3
JAP	92,8	104,1	101,1	100,2	95,9	96,3	96,3

¹ Nominal unit labour costs divided by GDP deflator.

* Notes: see page 15.

TABLE 12: Deflator of private consumption (percentage change on preceding year, 1961-92) *

	1961-73	1974-82	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
B	3,7	7,9	7,2	5,7	5,9	0,3	1,8	1,8	3,4	3,6	4,5	3,5
DK	6,6	10,9	6,8	6,4	4,3	3,5	4,4	4,9	5,0	2,8	3,3	2,0
D	3,6	5,0	3,2	2,5	2,1	-0,2	0,8	1,3	3,2	2,8	3,9	3,5
GR	3,5	17,3	18,1	17,9	18,3	22,0	15,6	14,0	14,4	20,5	18,5	15,0
E	6,6	17,1	12,3	11,0	8,2	8,7	5,4	5,1	6,6	6,8	6,6	5,5
F	4,8	11,7	9,7	7,9	6,0	2,9	3,3	3,0	3,3	3,4	3,6	3,0
IRL	6,3	15,9	9,2	7,6	4,7	4,0	2,6	2,5	3,9	2,8	3,5	2,4
I	4,9	17,4	15,1	11,9	9,0	5,7	5,0	4,8	6,0	6,1	6,3	5,4
L	3,2	7,7	8,5	6,9	4,5	1,2	1,5	2,6	4,0	3,5	4,0	3,5
NL	5,0	6,8	2,9	2,2	2,2	0,2	-0,4	0,7	2,1	2,4	2,8	2,5
P	3,9	21,5	25,8	28,5	19,4	13,8	10,0	10,0	12,8	13,2	12,6	11,0
UK	4,9	14,4	5,0	5,1	5,2	4,4	3,9	5,0	6,1	7,0	6,3	4,8
EUR	4,7	12,1	8,6	7,3	5,9	3,8	3,5	3,7	4,9	5,1	5,3	4,4
USA	3,1	8,2	3,5	3,9	3,1	2,0	4,4	4,1	4,4	5,1	6,3	5,5
JAP	6,1	7,8	1,9	2,1	2,2	0,6	-0,1	0,0	1,7	2,5	2,3	2,2

TABLE 13: Compensation of employees per head (percentage change on preceding year, 1961-92) *

	1961-73	1974-82	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
B	8,9	10,5	6,1	6,7	4,5	4,7	2,0	1,8	3,9	6,2	7,1	6,2
DK	10,7	11,5	8,2	5,5	4,7	4,9	8,4	4,6	3,5	3,3	3,0	3,0
D	9,2	6,8	3,7	3,5	3,1	3,8	3,1	3,1	2,8	4,7	5,1	4,3
GR	10,2	21,9	21,4	22,3	25,2	12,8	11,3	17,2	18,8	18,0	16,7	13,2
E	14,6	20,4	13,8	10,0	9,4	9,5	6,4	6,4	5,8	8,2	7,4	6,6
F	9,9	14,8	10,1	8,2	6,6	4,3	3,5	4,0	4,9	5,4	4,7	4,7
IRL	11,3	18,7	12,8	11,2	7,9	4,6	6,1	4,1	2,3	4,3	5,4	4,1
I	11,5	20,2	16,0	11,8	10,1	7,4	9,3	8,8	9,2	8,9	9,0	7,7
L	7,4	10,3	6,9	7,1	3,5	5,2	3,9	3,1	3,9	6,2	5,3	5,8
NL	11,4	8,4	3,2	0,2	1,4	1,6	1,4	1,4	0,5	4,7	4,4	4,2
P	10,8	25,1	21,8	21,2	22,5	21,6	17,9	13,4	13,0	16,9	15,6	13,7
UK	8,3	16,1	8,6	5,4	6,9	7,3	6,2	7,2	8,8	10,4	8,7	6,7
EUR	9,9	14,5	9,8	7,5	7,0	6,2	5,5	5,6	6,0	7,5	7,0	6,0

TABLE 14: Real GDP per occupied person (percentage change on preceding year, 1961-92) *

	1961-73	1974-82	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
B	4,3	2,3	1,4	2,3	0,3	1,0	1,4	2,8	2,7	2,5	2,0	2,4
DK	3,2	1,2	2,2	2,6	1,7	0,4	-1,2	0,2	1,8	1,1	0,9	1,4
D	4,1	2,2	3,1	2,7	1,3	1,3	1,0	3,0	1,9	1,9	1,5	1,0
GR	8,2	1,6	-0,6	2,4	2,1	0,5	0,1	2,3	2,2	0,5	1,4	1,6
E	6,5	3,2	2,3	4,3	3,7	1,0	0,1	2,0	0,7	0,8	1,0	1,4
F	4,6	2,2	1,2	2,4	2,1	2,0	1,6	2,7	2,4	1,3	1,7	2,0
IRL	4,3	3,4	1,9	6,4	4,9	-0,7	4,2	3,3	4,8	2,9	1,6	3,0
I	5,5	2,0	0,5	2,6	1,7	1,8	2,4	2,5	3,6	1,5	1,9	2,1
L	3,0	0,5	3,3	5,6	1,5	1,8	0,1	1,2	2,3	0,8	1,1	1,8
NL	3,9	1,8	3,3	3,2	1,0	0,0	-0,3	1,5	2,3	1,7	1,3	1,4
P	6,7	3,2	1,0	-0,4	2,8	7,0	4,7	3,9	3,1	2,3	2,9	3,2
UK	2,9	1,3	4,8	0,2	2,1	3,1	2,5	0,9	-0,6	-0,4	1,1	2,4
EUR	4,4	2,1	2,3	2,3	1,9	1,9	1,5	2,2	1,7	1,1	1,6	1,8
USA	2,0	0,1	2,9	2,2	1,3	1,1	0,8	1,7	1,0	0,0	-0,5	0,4
JAP	8,2	3,0	1,5	4,5	4,0	1,6	3,2	4,0	3,1	4,3	2,9	3,0

TABLE 15: Unit labour costs, whole economy¹ (percentage change on preceding year, 1961-92) *

	1961-73	1974-82	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
B	4,4	8,0	4,6	4,3	4,2	3,7	0,6	-1,0	1,2	3,6	4,9	3,8
DK	7,3	10,1	5,8	2,8	2,9	4,4	9,7	4,4	1,7	2,0	2,0	1,6
D	4,8	4,5	0,6	0,7	1,7	2,5	2,1	0,1	0,9	2,8	3,5	3,3
GR	1,9	19,9	22,2	19,4	22,6	12,3	11,2	14,5	16,3	17,3	15,1	11,4
E	7,7	16,6	11,2	5,5	5,6	8,5	6,2	4,3	5,0	7,3	6,3	5,1
F	5,0	12,3	8,8	5,7	4,4	2,3	1,9	1,3	2,4	4,1	2,9	2,6
IRL	6,8	14,8	10,7	4,5	2,9	5,3	1,8	0,8	-2,3	1,4	3,7	1,1
I	5,6	17,8	15,5	8,9	8,2	5,5	6,8	6,1	5,3	7,1	6,9	5,4
L	4,2	9,7	3,5	1,5	1,9	3,4	3,7	1,9	1,5	5,2	3,9	3,6
NL	7,1	6,5	-0,2	-2,9	0,4	1,6	1,8	-0,1	-1,8	2,9	3,0	2,7
P	3,9	21,2	20,6	21,7	19,1	13,6	12,6	9,1	9,6	13,0	12,3	9,8
UK	5,3	14,6	3,6	5,1	4,7	4,1	3,6	6,3	9,4	10,9	7,5	4,2
EUR	5,3	12,2	7,3	5,1	5,0	4,3	3,9	3,3	4,2	6,2	5,3	4,1

¹ Compensation of employees per head divided by labour productivity per head, defined as GDP volume divided by total employment i.e. real GDP per occupied person.

* Notes: see page 15.

TABLE 16: Total employment (percentage change on preceding year, 1961-92) *

	1961-73	1974-82	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
B	0,6	-0,3	-1,0	-0,2	0,6	0,6	0,5	1,5	1,3	0,9	0,2	0,3
DK	1,1	0,2	0,3	1,7	2,5	2,6	0,5	-0,6	-0,5	-0,2	-0,0	0,4
D	0,2	-0,5	-1,5	0,1	0,7	1,0	0,8	0,6	1,4	2,4	1,6	1,0
GR	-0,5	1,1	1,0	0,3	1,0	0,3	-0,1	1,6	0,4	0,7	-0,4	-0,1
E	0,7	-1,4	-0,5	-2,4	-1,3	2,3	5,4	2,9	4,1	2,7	1,5	1,8
F	0,7	0,2	-0,4	-0,9	-0,3	0,1	0,2	0,6	1,2	1,2	0,8	0,8
IRL	0,1	0,8	-2,1	-1,9	-2,4	0,4	0,6	0,4	1,1	1,6	0,7	0,7
I	-0,2	1,0	0,6	0,4	0,9	0,8	0,6	1,4	-0,5	1,0	0,4	0,5
L	1,1	0,5	-0,3	0,6	1,4	2,6	2,7	3,1	3,7	2,4	1,8	1,5
NL	0,9	-0,2	-1,9	-0,1	1,5	2,0	1,4	1,3	1,6	1,7	0,8	1,1
P	0,2	-0,4	-1,1	-1,5	-0,0	-2,7	0,5	0,1	2,3	1,9	0,3	0,5
UK	0,3	-0,5	-1,2	1,9	1,6	0,4	2,2	3,2	2,8	2,0	-0,4	0,0
EUR	0,3	-0,1	-0,7	0,0	0,6	0,7	1,3	1,5	1,6	1,7	0,6	0,7
USA	1,9	1,5	1,0	4,9	2,4	1,7	2,9	2,9	2,0	0,9	0,7	0,6
JAP	1,3	0,6	1,7	0,5	0,7	0,9	1,0	1,6	1,7	1,6	1,3	1,1

TABLE 17: Employment in manufacturing industries (percentage change on preceding year, 1974-92) *

	1974-82	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
B	-3,5	-2,0	-1,1	-1,6	-1,8	-2,3	-0,7	1,1	0,9	0,3	0,3
DK	-2,1	0,2	5,1	5,6	3,6	-2,4	-2,9	0,0	0,2	0,3	1,3
D	-1,7	-3,7	-1,1	1,0	1,7	0,0	-0,1	1,2	3,5	2,6	1,8
GR	—	-1,0	-2,4	-0,7	3,1	-1,3	1,0	0,2	0,2	0,0	0,1
E	—	-2,1	-2,4	-2,8	1,7	5,0	2,6	3,3	2,8	0,7	0,8
F	-1,4	-2,0	-3,0	-2,9	-2,0	-2,6	-1,7	0,4	0,7	-0,4	0,2
IRL	0,5	-7,7	-4,3	-4,5	1,8	-3,9	-0,7	2,6	1,9	0,9	0,9
I	0,2	-3,9	-4,5	-1,4	-0,5	-1,0	1,5	0,4	0,2	0,0	0,1
L	-2,1	-3,7	-0,9	0,3	0,3	-1,8	-3,4	1,1	1,3	0,8	1,0
NL	-2,5	-4,3	-1,1	2,0	1,9	0,8	0,4	1,8	1,5	0,2	1,0
P	1,7	-0,9	-4,1	-1,2	-2,4	-1,7	-1,7	1,5	0,2	0,0	0,1
UK	-3,1	-6,4	-2,6	1,3	-2,3	-0,4	1,5	0,7	-1,4	-2,7	-1,4
EUR	-1,6 ¹	-3,6	-2,4	-0,4	-0,2	-0,4	0,4	1,0	1,2	0,3	0,5

¹ EUR-10.

TABLE 18: Number of unemployed (as percentage of civilian labour force, 1961-92) * ¹

	1961-73	1974-82	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
B	2,0	6,7	12,5	12,5	11,6	11,6	11,4	10,0	8,5	7,8	7,7	7,6
DK	0,9	5,7	9,3	8,7	7,2	5,6	5,7	6,5	7,7	8,2	8,8	8,7
D	0,7	3,3	6,9	7,1	7,1	6,3	6,2	6,1	5,5	6,0	6,3	6,5
GR	4,2	2,7	7,8	8,1	7,8	7,4	7,4	7,7	7,8	8,1	9,2	9,6
E	2,8	8,4	17,8	20,6	21,8	21,0	20,4	19,3	17,0	15,8	15,6	15,0
F	2,2	5,4	8,2	9,8	10,2	10,3	10,4	9,9	9,4	8,9	8,7	8,5
IRL	5,7	9,0	15,2	16,8	18,2	18,2	18,1	17,6	17,0	16,5	16,5	16,6
I	5,2	6,6	8,8	9,5	9,4	10,4	10,2	10,8	10,8	10,2	10,3	10,2
L	0,0	1,2	3,5	3,1	2,9	2,6	2,6	2,1	1,8	1,7	1,6	1,6
NL	1,3	6,5	12,4	12,3	10,5	10,2	10,0	9,3	8,7	7,4	7,2	6,9
P	2,5	6,4	8,0	8,7	8,8	8,2	6,8	5,6	5,0	4,4	4,9	5,0
UK	2,0	5,5	11,1	11,3	11,4	11,4	10,4	8,5	7,0	6,4	7,3	8,0
EUR	2,4	5,6	9,9	10,7	10,8	10,7	10,3	9,7	8,9	8,5	8,8	8,8
USA	4,6	7,2	9,6	7,5	7,2	7,0	6,2	5,5	5,2	5,4	6,1	6,7
JAP	1,2	2,0	2,7	2,7	2,6	2,8	2,8	2,5	2,3	2,2	2,2	2,3

¹ Series following SOEC definition, based on the labour force survey.

TABLE 19: General government lending or borrowing (—) (as a percentage of GDP, 1974-92) *

	1974-82	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
B	-7,2	-11,3	-9,0	-8,5	-9,1	-7,1	-6,5	-6,6	-5,6	-5,9	-5,4
DK	-2,3	-7,2	-4,1	-2,0	3,4	2,5	0,2	-0,8	-1,4	-1,6	-1,1
D	-3,1	-2,5	-1,9	-1,1	-1,3	-1,9	-2,1	0,2	-3,2	-4,8	-3,6
GR	—	-8,3	-10,0	-13,8	-12,7	-12,0	-14,3	-18,4	-18,6	-17,1	-14,9
E	-1,8	-4,8	-5,5	-7,0	-6,1	-3,2	-3,2	-2,7	-3,0	-1,8	-1,1
F	-1,2	-3,1	-2,8	-2,9	-2,8	-1,9	-1,7	-1,5	-1,2	-1,1	-0,9
IRL	-10,9	-11,8	-9,8	-11,3	-11,1	-9,1	-3,7	-3,2	-3,3	-3,5	-3,4
I	-8,9	-10,6	-11,6	-12,5	-11,7	-11,1	-10,9	-10,2	-10,0	-9,4	-9,2
L	1,4	2,0	3,3	5,3	3,3	1,3	2,1	3,4	3,3	1,1	0,9
NL	-3,4	-6,4	-6,3	-4,8	-6,0	-6,6	-5,2	-5,3	-5,4	-4,7	-4,5
P	—	-9,0	-12,0	-10,1	-7,2	-6,8	-5,4	-3,8	-6,0	-5,6	-4,7
UK	-3,6	-3,3	-3,9	-2,8	-2,4	-1,3	1,1	0,9	-0,2	-0,7	-0,6
EUR	-3,9 ¹	-5,3	-5,3	-5,2	-4,8	-4,2	-3,7	-3,0	-3,9	-4,1	-3,6
USA	-1,7	-4,9	-3,8	-4,2	-4,4	-3,7	-3,6	-2,0	-2,3	-2,3	-1,9
JAP	-3,6	-3,7	-2,1	-0,8	-1,0	0,7	2,1	1,8	2,7	2,5	2,2

¹ EUR without Greece and Portugal.

* Notes: see page 15.

TABLE 20: World export prices¹ *

	Percentage change on preceding year					
	1987	1988	1989	1990	1991	1992
Fuels	19,0	-15,6	16,9	31,9	22,7	-13,2
Other primary commodities	7,0	20,0	-0,2	-0,3	1,9	3,8
Manufactures	11,6	5,7	-0,2	8,1	7,4	5,2

¹ In US dollars.

Source: United Nations and forecasts by Commission services.

* Notes: see page 15.

The worsening of inflation in 1990 goes together with a corresponding evolution of unit labour costs, which are estimated to increase by more than 6 % in 1990, compared to 4.2 % in 1989. Thanks to the appreciation of the European currencies, import prices have decelerated, despite the oil price increase, but not enough to offset the acceleration of unit labour costs.

The further slight increase in inflation in 1991 is due to a stronger growth in import prices (1 % in 1990 to 3.7 % in 1991). The rise in unit labour costs should level off. Also, the convergence situation in the Community should improve but more effort is needed in countries like Greece, Spain, Italy, Portugal and the UK, where the inflation rates are above the Community average.

In 1992, inflation (as based on the wage, exchange rate and oil price assumptions underlying the forecasts) will slow down to 4.4 % under the influence of lower increases in unit labour costs and import prices.

Prices of imported goods and services are forecast to increase by only 1 % in 1990 compared to 6.4 % in 1989. The effect of the higher oil prices has been offset by the decline of the dollar and the stable trend of non-oil primary commodity prices expressed in dollars. The behaviour of the prices of imported goods and services is therefore very different with this 'third oil shock', when compared with the two previous oil shocks of 1973 and

1979. During the two previous oil shocks increases in import prices largely surpassed increases in consumer prices and unit labour costs.

For 1991 a higher price increase for imported goods and services is expected (3.7 %), which would be followed by a certain deceleration in 1992 (2.3 %).

Wages per head in the Community should increase in 1990 by 7.5 %, compared to 6 % in 1989. The acceleration is particularly strong in Belgium, Germany, Spain, Ireland, Luxembourg, the Netherlands and Portugal. Notwithstanding a deceleration of wage increases per head by 0.5 percentage points for the Community as a whole in 1991, a further acceleration is forecast for Belgium, Germany and Ireland. In 1992, wages per head could rise more slowly for the Community as a whole.

The projected productivity increases do not lead to a different picture for the evolution of unit labour costs: the latter accelerate from 4.2 % in 1989 to 6.2 % in 1990. This acceleration will be followed by a slowdown to 5.3 % in 1991 and 4.1 % in 1992. Real unit labour costs (deflated by the GDP deflator) should go up by 0.4 % in 1990, the first increase since 1981. This is due to increases in Belgium, France, Luxembourg and the United Kingdom. For 1991 and 1992, decreases of 0.2 % and 0.7 % are expected for the Community as a whole thus marking a resumption of the trend towards better investment profitability experienced throughout the last decade.

A deterioration of the budgetary position in 1990. — General government borrowing as a percentage of GDP for the Community as a whole should increase from 3 % in 1989 to 3.9 % in 1990. This development is mainly the result of German unification, which implies an important expansionary swing with a deterioration in the general government balance of the FRG of 3.4 % of GDP between 1989 and 1990¹.

¹ In the presentation adopted here, the whole of the public deficit in the former GDR is financed through current public transfers from the FRG. This implies that there is no difference between general government borrowing for the old and the new FRG.

TABLE 21: Total public expenditure (as percentage of GDP, 1974-92) *

	1974-82	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
B	51,6	58,3	57,1	56,9	56,6	55,1	53,2	51,6	49,7	49,7	49,0
DK	52,4	61,6	60,3	59,3	56,0	57,9	60,2	59,7	58,7	58,3	57,7
D	48,0	48,4	48,0	47,5	46,9	47,0	46,6	45,1	46,8	48,5	47,4
GR	—	41,5	44,3	48,1	48,0	48,6	49,2	50,0	52,5	52,6	51,5
E	30,0	39,3	39,8	42,6	42,2	41,0	41,1	42,0	41,4	41,2	40,9
F	44,8	51,4	51,9	52,1	51,5	51,2	50,6	50,1	49,8	49,7	49,7
IRL	47,2	54,2	52,3	53,7	53,5	51,7	48,5	43,2	42,5	42,7	42,2
I	40,5	48,6	49,3	50,8	50,9	50,5	51,0	51,9	52,5	53,0	52,7
L	50,9	55,1	51,8	51,7	52,3	55,2	54,5	52,8	51,4	51,3	50,9
NL	54,7	62,0	60,7	59,6	59,7	61,3	59,5	57,2	57,0	57,0	56,4
P	—	46,1	46,6	43,5	44,6	43,0	43,0	42,3	43,3	43,5	42,9
UK	43,2	44,9	45,5	44,3	43,1	41,4	38,7	38,2	38,4	38,6	38,2
EUR	44,0 ¹	48,7	48,9	49,1	48,5	48,0	47,2	46,8	47,1	47,6	47,1

¹ EUR without Greece and Portugal.

TABLE 22: Total public receipts (as percentage of GDP, 1974-92) *

	1974-82	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
B	44,4	47,0	48,1	48,3	47,5	48,1	46,8	45,0	44,1	43,7	43,6
DK	50,2	54,4	56,2	57,3	59,4	60,3	60,5	58,9	57,3	56,7	56,6
D	45,0	45,8	46,1	46,4	45,6	45,1	44,5	45,4	43,6	43,7	43,8
GR	29,3	33,2	34,2	34,2	35,4	36,6	34,8	31,7	33,9	35,5	36,6
E	28,2	34,5	34,3	35,5	36,1	37,8	37,8	39,3	38,4	39,3	39,8
F	43,7	48,2	49,2	49,3	48,8	49,3	48,9	48,6	48,6	48,6	48,7
IRL	36,3	42,4	42,5	42,5	42,4	42,6	44,8	40,0	39,1	39,3	38,7
I	31,5	37,9	37,7	38,2	39,3	39,4	40,1	41,6	42,5	43,6	43,6
L	52,3	57,1	55,1	57,0	55,6	56,5	56,6	56,2	54,8	52,4	51,8
NL	51,3	55,6	54,5	54,9	53,7	54,7	54,3	51,9	51,6	52,3	51,9
P	—	37,0	34,6	33,4	37,3	36,2	37,6	38,6	37,4	38,0	38,2
UK	39,6	41,6	41,5	41,5	40,7	40,1	39,8	39,1	38,2	37,9	37,6
EUR	40,1 ¹	43,4	43,5	43,9	43,7	43,8	43,6	43,7	43,2	43,5	43,5

¹ EUR without Greece and Portugal.

* Notes: see page 15.

TABLE 23: Rates of change of demand components
(EUR-12, 1990-92)¹ *

	Percentage change on preceding period at constant prices						
	1990	1991	1992	1991-1991-II	1992-1992-II	1992-1992-II	1992-1992-II
Private consumption	3.4	2.5	2.7	2.6	2.5	2.7	3.1
Government consumption	2.1	1.3	0.9	1.1	0.9	0.9	1.0
Fixed capital formation	4.4	2.9	4.2	3.5	4.9	3.6	4.7
— Construction	3.6	2.0	3.2	3.4	4.2	2.3	4.0
— Equipment	5.1	3.7	5.2	3.6	5.6	4.9	5.3
Change in stocks as % of GDP	0.7	0.6	0.8	0.5	0.7	0.8	0.8
Domestic demand	3.0	2.3	3.0	2.4	3.1	2.7	3.2
Exports of goods and services	7.0	5.0	4.3	3.0	4.6	4.4	3.9
Imports of goods and services	7.1	5.1	5.5	3.8	5.5	5.4	5.7
Gross domestic product	2.9	2.2	2.5	2.1	2.8	2.4	2.6

¹ Half-yearly figures at annual rates, seasonally adjusted (1991-I = first half of 1991 etc.).

TABLE 24: Export markets and export performance (percentage change on preceding year, 1990-92) *

	Export markets			Export performance ¹		
	1990	1991	1992	1990	1991	1992
B	7.3	5.6	5.4	-1.4	-0.8	-0.1
DK	6.2	4.8	4.6	-1.3	-0.5	-0.3
D	5.5	4.3	5.3	4.9	4.8	-1.8
GR	7.0	5.4	4.9	-2.5	-0.9	0.4
E	6.5	4.7	5.2	0.8	0.4	0.7
F	6.7	5.4	5.4	-0.5	-0.9	-0.9
IRL	5.5	3.7	4.8	-1.3	2.3	-0.7
I	6.9	5.5	5.4	-1.6	-1.5	-0.7
L²	—	—	—	—	—	—
NL	7.2	5.4	5.1	-1.6	-0.8	0.4
P	6.4	4.6	5.0	6.0	3.6	2.1
UK	6.0	5.0	5.2	0.7	-3.2	-1.6
EUR	6.3	5.0	5.2	0.8	0.3	-0.8
USA	4.4	4.2	5.0	4.0	1.7	2.7
JAP	5.4	5.2	5.3	-0.4	0.3	-0.3

¹ Indices of export volume growth divided by indices of market growth (includes intra community trade).

² Included in the figures for Belgium.

TABLE 25: Imports of goods, volume (percentage change on preceding year, 1961-92) *

	1961-73	1974-81	1982-88	1989	1990	1991	1992
B	9.3	1.9	4.6	7.5	6.2	5.2	5.8
DK	7.9	-0.2	3.3	5.6	2.3	1.9	2.9
D	8.8	4.0	4.1	9.6	13.3	10.8	6.0
GR	12.7	0.4	8.9	10.6	5.2	3.4	4.2
E	—	1.7	8.7	18.3	9.7	5.3	7.2
F	11.3	2.4	4.5	8.0	7.1	4.3	5.2
IRL	9.2	4.5	3.9	12.4	6.9	4.4	5.1
I	10.4	3.9	4.9	8.3	6.0	5.4	6.2
L	6.1	1.1	5.9	7.0	5.0	5.0	5.5
NL	9.4	1.3	5.0	6.0	6.3	3.9	5.0
P	—	—	—	11.5	11.3	6.7	6.8
UK	5.2	0.3	7.9	7.6	2.8	0.1	4.0
EUR	9.0 ¹	2.3 ²	4.7 ²	9.1	7.5	5.2	5.5
USA	9.4 ³	2.2	8.8	5.8	3.5	1.6	3.4
JAP	—	—	—	7.4	6.6	4.8	4.8

¹ Total excluding Spain and Portugal.

² Total excluding Portugal.

³ USA: average 1964-73.

TABLE 26: Exports of goods, volume (percentage change on preceding year, 1961-92) *

	1961-73	1974-81	1982-88	1989	1990	1991	1992
B	10.2	2.2	4.6	7.0	5.8	4.8	5.4
DK	6.8	4.7	4.1	6.5	4.7	4.2	4.3
D	8.0	4.7	3.6	9.7	10.7	9.2	3.4
GR	11.9	5.5	9.9	3.8	4.4	4.5	5.3
E	—	8.9	6.3	8.8	7.4	5.1	5.9
F	10.0	5.2	2.9	8.8	6.1	4.4	4.5
IRL	8.1	7.9	9.9	10.5	4.1	6.1	4.1
I	11.8	7.3	3.8	9.1	5.2	3.9	4.6
L	5.5	-0.8	7.7	7.7	2.6	3.3	4.9
NL	10.3	2.7	4.5	5.2	5.5	4.6	5.5
P	—	—	—	21.2	12.7	8.4	7.1
UK	5.0	3.5	4.1	4.9	6.8	1.6	3.5
EUR	8.9 ¹	4.8 ²	4.2 ²	8.0	7.2	5.3	4.4
USA	6.7 ³	5.1	5.5	12.3	8.5	6.0	7.8
JAP	—	—	—	4.5	8.2	5.0	4.2

¹ Total excluding Spain and Portugal.

² Total excluding Portugal.

³ USA: average 1964-73.

* Notes: see page 15.

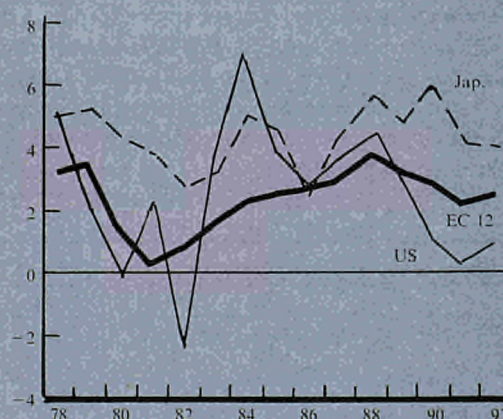
Even excluding Germany the budgetary position of the rest of the Community still shows a deterioration in 1990. Taking the Community without Germany, general government borrowing as a percentage of GDP should increase from 3.9 % in 1989 to 4.2 % in 1990. No significant deficit reductions are expected in those countries where serious budgetary imbalances continue to exist.

For 1991 a stabilisation is expected at the Community level notwithstanding the rising German deficit (4.8 % of GDP). This would be followed by an amelioration in 1992, including Germany.

A worsening of the Community's balance on current transactions with the rest of the world, but diminishing internal imbalances. —

The trade balance of the Community, including the former GDR in the rest of the world, is expected to improve in 1990 to a surplus of 0.4 % of GDP compared to 0.2 % in 1989. However, if the figures for the former GDR were to be consolidated with those of the former FRG, the trade balance of the whole of Germany shows a sharp deterioration due to strong import growth reflecting the buoyant economy. For the Community as a whole (e.g. including the former GDR in the Community), this would imply a swing from a surplus equivalent to 0.2 % of GDP in 1989 to a deficit of more or less the same amount in 1990.

GRAPH 8: GDP growth, annual real percentage growth rates



GRAPH 9: Private consumption deflator, annual percentage changes

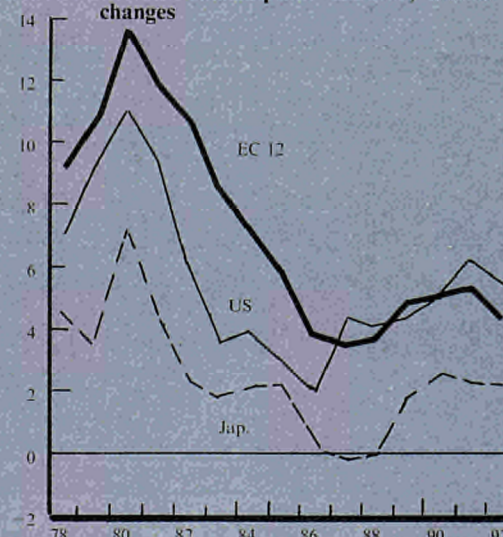


TABLE 27: Trade balance total (fob/cif) (in billions of ecus) *

	1961-73	1974-82	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
B	-0.1	-3.4	-4.0	-4.8	-3.7	-0.2	-0.7	-2.9	-2.2	0.5	-0.6	-0.2
DK	-0.7	-2.1	-0.2	-0.7	-1.5	-1.5	0.2	0.9	1.2	2.7	2.9	3.4
D	3.6	13.0	18.5	24.1	33.0	53.1	57.0	61.0	64.0	42.8	31.0	30.0
GR	-0.9	-3.6	-5.8	-6.1	-7.4	-5.8	-5.6	-5.9	-7.8	-6.9	-7.5	-7.7
E	-1.9	-7.6	-10.6	-4.7	-5.6	-6.3	-8.7	-11.9	-19.3	-27.9	-30.5	-33.2
F	-0.8	-9.9	-15.5	-13.1	-13.5	-9.2	-12.6	-12.2	-14.9	-19.1	-21.5	-23.1
IRL	-0.4	-1.4	-0.6	-0.0	0.5	1.0	2.0	2.7	3.1	2.5	2.7	2.7
I	-1.3	-7.5	-8.5	-13.9	-16.0	-2.5	-7.5	-8.4	-11.2	-10.9	-14.1	-15.2
L¹	—	—	—	—	—	—	—	—	—	—	—	—
NL	-1.0	-0.3	4.5	4.3	3.9	4.6	1.1	1.2	3.5	3.4	4.5	5.4
P	-0.5	-3.0	-4.0	-3.5	-2.7	-2.3	-3.7	-5.8	-5.6	-6.8	-7.5	-7.9
UK	-2.7	-6.2	-9.7	-14.2	-11.9	-19.9	-20.9	-42.6	-41.1	-30.1	-25.8	-27.3
EUR	-6.6	-32.0	-35.8	-32.6	-24.7	11.0	0.8	-23.9	-30.3	-26.8	-23.0	-16.3

¹ Included in the figures for Belgium.

TABLE 28: Trade balance intra-EC (fob/cif) (in billions of ecus) *

	1961-73	1974-82	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
B	0.5	0.8	0.6	0.1	-1.4	1.9	1.0	0.9	2.7	3.7	4.0	5.5
DK	-0.3	-1.1	-0.2	-1.2	-2.1	-2.2	-1.0	-0.4	0.2	-0.0	0.1	0.4
D	1.4	5.1	6.1	7.8	9.5	20.3	26.2	34.7	38.6	37.8	34.6	37.4
GR	-0.5	-1.5	-2.6	-2.6	-3.2	-3.1	-3.1	-3.6	-4.7	-3.5	-3.7	-3.9
E	-0.7	-0.6	0.3	3.2	2.6	-0.6	-3.5	-5.3	-8.9	-11.6	-12.1	-13.2
F	-0.1	-4.3	-12.8	-13.4	-15.3	-14.0	-14.7	-13.1	-15.4	-8.7	-9.7	-11.0
IRL	-0.2	-0.9	-0.7	-0.2	-0.1	0.6	1.8	2.4	3.0	3.9	4.1	4.2
I	0.0	-0.9	-0.5	-4.2	-6.4	-3.3	-4.8	-5.3	-6.8	-6.1	-7.8	-9.7
L¹	—	—	—	—	—	—	—	—	—	—	—	—
NL	0.2	7.4	16.1	19.5	19.9	15.5	12.4	12.4	18.5	13.3	16.8	17.6
P	-0.3	-1.1	-0.9	-0.3	-0.0	-0.7	-1.7	-3.5	-3.4	-4.2	-4.6	-5.2
UK	-0.4	-1.3	-3.8	-4.5	-3.6	-12.7	-13.0	-20.2	-22.5	-16.7	-14.5	-15.3
EUR	-0.4	1.4	1.6	4.2	-0.1	1.6	-0.6	-0.8	1.2	15.9	21.0	18.5

¹ Included in the figures for Belgium.

TABLE 29: Trade balance extra-EC (fob/cif) (in billions of ecus) *

	1961-73	1974-82	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
B	-0.6	-4.3	-5.2	-5.1	-2.6	-2.6	-2.0	-4.2	-5.4	-3.1	-4.6	-5.7
DK	-0.3	-1.0	0.0	0.5	0.6	0.7	1.2	1.3	1.0	2.7	2.9	3.0
D	2.2	7.7	11.9	15.8	22.9	32.5	30.5	26.0	25.0	5.1	-3.6	-7.4
GR	-0.4	-2.1	-3.2	-3.6	-4.2	-2.7	-2.6	-2.3	-3.2	-3.4	-3.7	-3.8
E	-1.2	-7.1	-11.1	-7.9	-8.3	-5.9	-5.7	-6.9	-10.8	-16.2	-18.4	-20.0
F	-0.7	-5.7	-2.7	0.3	1.9	5.0	2.4	1.1	0.9	-10.4	-11.9	-12.1
IRL	-0.2	-0.5	0.0	0.1	0.4	0.4	0.2	0.3	0.1	-1.3	-1.4	-1.5
I	-1.3	-6.9	-8.8	-10.3	-10.2	0.6	-3.0	-3.3	-4.4	-4.8	-6.4	-5.5
L¹	—	—	—	—	—	—	—	—	—	—	—	—
NL	-1.2	-8.1	-13.0	-16.6	-17.4	-11.7	-11.9	-11.9	-15.7	-9.9	-12.2	-12.2
P	-0.2	-1.9	-3.1	-3.2	-2.7	-1.7	-2.0	-2.4	-2.3	-2.6	-2.9	-2.7
UK	-2.3	-4.9	-5.9	-9.7	-8.2	-7.2	-8.0	-22.6	-18.8	-13.4	-11.4	-11.9
EUR	-6.3	-34.5	-41.1	-39.8	-27.8	7.4	-0.7	-25.0	-33.7	-42.7	-44.0	-34.8

¹ Included in the figures for Belgium.

TABLE 30: Balance on current account (as percentage of GDP, 1961-92) *

	1961-73	1974-82	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
B	1.1	-1.8	-0.8	-0.6	0.3	2.0	1.2	1.0	1.0	0.3	-0.3	0.0
DK	-2.0	-3.5	-2.6	-3.3	-4.6	-5.5	-3.0	-1.8	-1.3	0.0	0.3	1.2
D	0.7	0.5	0.7	1.3	2.6	4.4	4.1	4.1	4.7	2.6	0.7	0.8
GR	-2.9	-2.0	-5.0	-4.0	-8.2	-5.3	-3.1	-1.7	-4.8	-5.1	-5.1	-4.5
E	-0.2	-2.0	-1.5	1.4	1.6	1.7	0.1	-1.1	-2.9	-3.8	-4.0	-3.9
F	0.4	-0.3	-0.8	-0.0	0.1	0.5	-0.3	-0.4	-0.2	-0.3	-0.4	-0.4
IRL	-2.5	-8.8	-6.9	-5.8	-4.0	-2.9	1.3	1.8	1.6	1.2	0.4	-0.3
I	1.4	-0.7	0.3	-0.6	-0.9	0.5	-0.2	-0.6	-1.3	-1.3	-1.7	-1.7
L¹	6.8	22.2	39.3	38.9	43.5	39.4	31.6	34.3	31.5	27.3	24.1	22.5
NL	0.5	1.2	3.1	4.2	4.1	2.7	1.4	2.4	3.6	3.3	3.4	3.4
P	0.4	-7.6	-8.3	-3.4	0.4	2.4	-0.4	-4.4	-1.2	-1.2	-1.7	-1.9
UK	-0.1	-0.3	0.9	-0.2	0.6	-0.8	-1.9	-4.1	-3.7	-2.8	-2.0	-2.1
EUR	0.4	-0.4	0.1	0.3	0.7	1.4	0.7	0.2	0.2	-0.3	-0.8	-0.7
USA	0.5	0.3	-1.0	-2.4	-2.9	-3.2	-3.4	-2.4	-1.8	-1.7	-1.8	-1.4
JAP	0.6	0.2	1.8	2.8	3.7	4.3	3.7	2.8	2.2	1.6	1.6	1.8

* Notes: see page 15.

TABLE 31: World GDP/GNP (at constant prices) *

	Percentage change on preceding year					
	1987	1988	1989	1990	1991	1992
EUR	2,9	3,8	3,4	2,9	2,2	2,5
USA	3,7	4,6	3,0	1,0	0,3	1,0
Canada	4,4	5,0	2,9	1,4	0,6	1,9
Japan	4,2	5,7	4,8	6,0	4,2	4,1
EFTA	2,1	3,1	3,6	2,3	1,7	2,0
Total OECD	3,5	4,4	3,5	2,7	1,9	2,3
CCEEs	1,4	4,1	1,9	-9,1	-8,2	1,5
OPEC	2,3	3,3	4,5	4,1	2,4	5,4
Other developing countries	4,3	5,4	3,4	2,7	4,2	4,5
— DAE's	11,7	9,4	6,9	6,1	5,6	6,0
— other Asia	3,1	9,5	4,0	4,0	4,7	5,0
— Latin America	3,2	0,0	1,0	-0,7	3,3	3,3
— Africa	1,0	2,0	2,6	1,7	2,7	3,0
World	3,2	4,4	3,3	1,1	0,8	2,6

TABLE 32: World imports of goods (at constant prices) *

	Percentage change on preceding year					
	1987	1988	1989	1990	1991	1992
EUR	8,8	9,2	8,7	7,5	5,2	5,5
USA	6,5	6,0	5,8	3,5	1,6	3,4
Canada	9,1	14,5	7,0	1,0	1,6	3,5
Japan	9,1	16,7	7,4	5,5	5,0	5,5
EFTA	6,1	-3,7	6,0	4,9	3,6	3,9
Total OECD	7,9	8,2	7,8	5,6	4,0	4,8
CCEEs	-2,7	6,0	8,3	24,2	17,1	2,3
OPEC	-2,0	2,9	3,0	2,8	-0,9	6,4
Other developing countries	8,8	13,3	9,2	5,4	5,9	5,6
— DAE's	22,3	21,4	12,5	8,2	7,0	6,7
— other Asia	-3,4	8,7	7,0	3,0	5,3	5,2
— Latin America	3,2	2,5	6,0	3,1	6,0	5,2
— Africa	0,1	6,3	4,0	1,1	1,6	2,0
World	7,2	8,8	7,9	6,0	4,6	4,9
World excluding EUR	6,4	8,6	7,4	5,1	4,3	4,5

TABLE 33: World balances of current account (in billions of US dollars) *

	1987	1988	1989	1990	1991	1992
EUR	37,9	15,2	0,2	-16,8	-53,4	-54,9
USA	-150,9	-117,5	-96,1	-92,6	-104,2	-89,4
Canada	-7,7	-8,8	-16,2	-13,6	-7,0	-2,5
Japan	87,1	79,7	57,0	47,7	53,6	63,1
EFTA	-8,0	-10,4	0,2	-4,1	-2,7	-0,5
Total OECD	-46,0	-43,6	-72,2	-96,5	-131,7	-98,2
CCEEs	5,4	3,5	-3,0	-3,6	5,8	-1,4
OPEC	-8,0	-17,1	4,3	45,5	68,4	30,1
Other developing countries	10,1	0,6	-8,7	-41,2	-54,9	-56,9
— DAE's	32,0	25,3	19,1	4,3	-2,0	-0,7
— other Asia	-6,2	-7,5	-12,5	-25,6	-32,5	-37,3
— Latin America	-8,2	-5,4	-5,5	-8,3	-6,9	-5,6
— Africa	-7,5	-11,8	-9,9	-11,6	-13,5	-13,3
Errors and omissions	-38,5	-56,6	-79,7	-100,1	-119,5	-137,9

TABLE 34: World trade balances (fob-fob, in billions of US dollars) *

	1987	1988	1989	1990	1991	1992
EUR	36,1	21,0	9,2	22,5	29,0	27,7
USA	-157,4	-127,1	-111,3	-102,0	-113,8	-90,9
Canada	9,1	8,8	4,0	7,6	11,0	11,5
Japan	96,4	95,0	77,1	71,8	82,1	98,3
EFTA	-5,5	-8,5	-5,3	-6,2	-5,6	-3,3
Total OECD	-24,5	-11,7	-31,1	-12,9	-6,3	34,1
CCEEs	6,4	3,4	-1,8	-27,2	-53,5	-59,8
OPEC	35,0	24,9	46,3	88,5	113,4	75,1
Other developing countries	21,8	17,2	11,3	-17,2	-30,6	-31,9
— DAE's	29,5	22,6	16,1	4,8	-1,2	0,3
— other Asia	-22,3	-24,0	-25,5	-36,1	-42,0	-46,3
— Latin America	18,2	25,3	27,5	24,7	25,1	26,4
— Africa	-3,6	-6,7	-6,9	-10,6	-12,5	-12,3
Errors and omissions	38,7	33,8	24,7	31,2	23,0	17,6

* Notes: see page 15.

TABLE 35: Trade balances (fob-fob) EC, USA and Japan *

	1987	1988	1989	1990	1991	1992
as a % of GDP						
EUR	0,6	0,3	0,2	0,4	0,4	0,4
USA	-3,6	-2,6	-2,1	-1,9	-2,0	-1,5
Japan	4,1	3,3	2,7	2,5	2,5	2,6
in billions of US dollars						
EUR	36,1	21,0	9,2	22,5	29,0	27,7
USA	-157,4	-127,1	-111,3	-102,0	-113,8	-90,9
Japan	96,4	95,0	77,1	71,8	82,1	98,3
in billions of ecus						
EUR	31,5	17,8	8,3	18,0	21,9	20,3
USA	-137,4	-107,7	-101,0	-81,2	-85,8	-66,8
Japan	84,1	80,5	69,9	57,2	61,9	72,3

The current account of the Community, where the inclusion or the exclusion of the figures for the former GDR do not make much of a difference, is expected to move from a surplus of 0.2 % of GDP in 1989 into a deficit of 0.3 % of GDP in 1990. This development is brought about by the large increase in inter-German government current transfers which leads to the sharp reduction of the current surplus of the FRG from 4.7 % of GDP in 1989 to 2.6 % in 1990.

This decrease of the German surplus also reduces internal imbalances in the Community. The reduction of the current deficit of the United Kingdom goes in the same direction, while the deterioration of the Spanish deficit counteracts this tendency.

For 1991 a further worsening of the Community's current balance is expected, mainly due to the disappearance of the German surplus. Current imbalances within the Community will show no major evolution, with the exception of a further reduction of the deficit of the United Kingdom by 0.8 percentage points of GDP in 1991. In 1992, the current balance of the Community will remain in deficit, at 0.7 % of GDP.

The Community's external environment: a slowdown in world growth and trade. — In 1990 and 1991 the world economy is seriously affected by the depressed economic performance of the United States. Furthermore the reforms being undertaken in Central and Eastern Europe also have negative effects, at least in the immediate future. Globally, real GDP outside the EC will rise by only 0.5 % in 1990 and 1991.

1992 will show a certain recovery, mainly under the influence of a modest pick up in growth in the United States and the countries of Central and Eastern Europe. Growth could stabilise in Japan, even if the rate of growth remains high compared to other countries.

Growth of *world trade* (measured by real imports of goods) will follow the trend in real economic expansion: declining from 7.9 % in 1989 to 6 % in 1990 and 4.6 % in 1991. This will be followed by a stabilisation in 1992. The continued strong growth in world trade in 1990 is due to lags in response to the slowdown in economic activity and continuing strong import growth in Eastern and Central Europe.

USA: on the edge of a recession. — The forecasts for real growth in the United States have been revised downwards considerably since the Spring forecasts. GNP is now expected to increase by 1 % in 1990 and 0.3 % in 1991. This contrasts with the Spring forecasts of 2.1 % and 2.3 % for 1990 and 1991 respectively. A modest recovery is forecast for 1992, when the annual growth rate of GNP will rise to 1 %.

Inflation, as measured by the deflator of private consumption, will keep increasing to reach 6.3 % in 1991. It should ease somewhat in 1992, in particular due to the assumed fall in the price of oil.

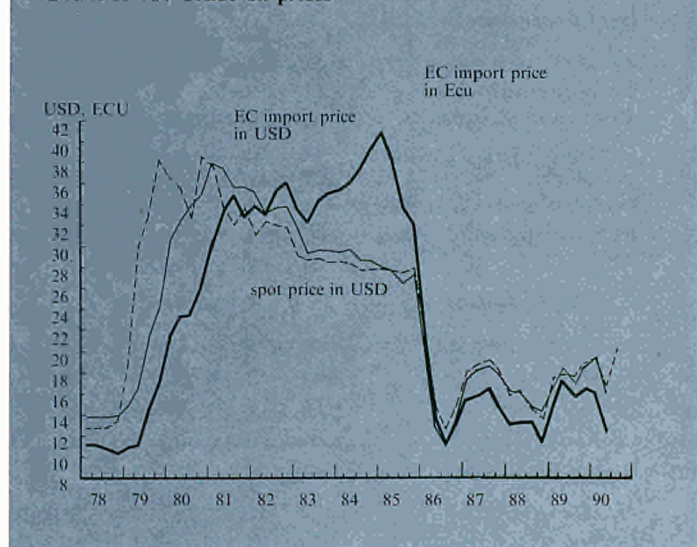
TABLE 36: Interest and exchange rates assumptions *

	1987	1988	1989	1990	1991	1992
	Annual rates in percentage points					
Rates of interest (US)						
— Short-term ¹	5,9	6,9	8,4	7,9	7,8	8,0
— Long-term ²	8,7	9,0	8,5	8,7	9,3	9,5
	Percentage change on preceding year					
Exchange rate of USD						
— Vis-à-vis ECU ³	-14,1	-2,9	7,1	-12,2	-5,2	-2,6
— Vis-à-vis YEN ³	-13,2	-12,0	7,6	6,6	-7,1	-2,8

¹ 13-week US treasury bills.² US 10 year-bonds.³ + (–) signifies an appreciation (depreciation) of the USD.

* Notes: see page 15.

GRAPH 10: Crude oil prices



The general government deficit will increase in 1990 in view of the fall in growth. The agreement between Congress and the Administration, includes for 1991 cuts in public expenditure and increases in taxes of more than 40 billion US \$ (0.8 % of GNP). However, due to the slowdown in economic expansion, general government borrowing is expected only to stabilise at 2.3 % of GNP in 1991. The situation should improve in 1992.

The fall of the dollar in 1990 should enable American producers to gain market shares, which will support exports and put a brake on imports of goods and services. However, with deteriorating terms of trade, this does not lead to a significant improvement in the current account of the balance of payments for 1990 and 1991.

Japan: growth decelerates but remains robust. — For 1990, a growth rate for real GNP of 6 % is expected. Growth will continue, but at a pace of about 4 % in 1991 and 1992. The modest deceleration is mainly due to monetary tightening, implying a negative effect on investment.

Inflation will remain very modest in Japan, despite the oil shock. The deflator of private consumption will reach 2.5 % in 1990 and then decline to 2.3 % in 1991 and 2.2 % in 1992. The expected surplus on the current balance has been revised downwards for 1990 and 1991.

The forecast heavily depends upon the assumption that the Japanese economy will react to the present oil shock with as much flexibility as after the second oil shock. This means in particular that the social partners will agree on wage increases which will be fully compatible with the safeguarding of Japanese competitiveness and that the Bank of Japan will succeed in containing inflation.

Main assumptions. — The situation in the petroleum market is very uncertain and heavily dependent on political and military developments. Therefore the underlying *oil price* scenario has, more than usual, the character of a technical assumption. It is assumed that after the winter, when other producers should have augmented their supplies, the oil market will become less tight. This should lead to a fall in prices during the first half of 1991 to 25\$ a barrel. This scenario implies the following average price for a barrel of crude oil: 1990: 23.7\$; 1991: 29\$; 1992: 25\$.

Dollar prices of *non-oil commodities* will be weak in 1990. In 1991 these prices will probably rise moderately.

As usual, this forecast is based on the technical assumption that *exchange rates* will remain constant throughout the forecast period. More precisely, the assumption is of stability in real terms at the levels of end September 1990 between the US dollar and the group of currencies participating in the ERM and stability in nominal terms for all European (intra- and extra-Community) currencies except the *Greek drachma* and the *Portuguese escudo* which are assumed to remain stable in real terms. This assumption implies a lower dollar over the forecast period than projected in Spring (DM1.63 per USD on average for 1990, DM1.55 per USD for 1991 and DM1.50 per USD for 1992).

The forecast is also based on the traditional '*no-policy-change*' assumption. This implies that monetary policies maintain their present stance throughout the period. Budgetary policy for 1990, 1991 and 1992 is assumed to be an extrapolation of present trends except where discretionary measures have already been decided and announced.

Risks. — The main source of uncertainty probably concerns the future evolution of the oil price. Political and military developments in the Middle East could significantly affect the oil market. The forecast should then be considered as a scenario based on a technical assumption for the price of oil.

Another source of uncertainty in the international environment concerns the nature and the extent of the slowdown in the United States economy.

The Spring forecast was dominated by uncertainties surrounding German Economic, Monetary and Social Union. In the meantime, most legal and institutional uncertainties have been removed with full German unification having taken place. However a number of major economic uncertainties still persist with regard to the unification process, and its possible inflationary consequences. Moreover there are uncertainties surrounding the pace of economic recovery in the former GDR, especially at the end of the forecast period.

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TABLE 37: Demand components at constant prices⁽¹⁾ and contributions to real GDP growth⁽²⁾, EC Countries and EC, 1986-92 *

	1986	1987	1988	1989	1990	1991	1992
B⁵ Demand components							
Private consumption	2,5	2,8	2,4	3,8	4,0	3,0	2,6
Government consumption	1,2	1,2	-1,4	-0,7	0,7	0,3	0,0
Fixed capital formation	4,2	5,2	16,0	13,6	7,0	3,5	5,6
— Construction	3,1	3,3	15,0	9,6	4,7	-0,2	3,2
— Equipment	4,9	5,8	17,7	19,0	10,0	8,0	8,3
Exports of goods and services	5,9	6,4	7,4	8,2	5,7	4,8	5,4
Imports of goods and services	7,8	8,6	7,3	9,1	6,3	5,3	5,7
GDP	1,6	1,9	4,3	4,0	3,5	2,2	2,7
Contributions to growth							
Final domestic demand	2,5	2,9	4,0	4,9	4,1	2,7	2,9
Stockbuilding	0,4	0,6	0,3	0,2	-0,0	-0,0	0,0
Foreign balance	-1,3	-1,6	-0,0	-0,8	-0,6	-0,5	-0,4
DK⁴ Demand components							
Private consumption	4,1	-1,2	-1,1	-0,4	0,6	0,6	1,3
Government consumption	1,5	2,0	-0,4	-0,8	-0,6	-1,5	-1,2
Fixed capital formation	16,2	-7,4	-6,5	-0,1	-2,6	-0,0	1,6
— Construction	18,0	-0,8	-3,1	-4,2	-6,1	-2,2	-0,2
— Equipment	16,6	-14,5	-7,5	5,5	1,8	2,5	3,5
Exports of goods and services	-0,3	4,7	5,3	6,6	6,0	3,9	4,4
Imports of goods and services	6,4	-2,0	0,6	5,7	2,4	1,7	2,8
GDP	3,1	-0,7	-0,4	1,3	0,9	0,9	1,8
Contributions to growth							
Final domestic demand	5,7	-1,7	-2,0	-0,4	-0,3	-0,0	0,7
Stockbuilding	-0,1	-1,2	-0,2	1,1	-0,4	-0,1	0,2
Foreign balance	-2,4	2,4	1,8	0,4	1,6	1,1	0,9
D⁴ Demand components							
Private consumption	3,4	3,4	3,0	1,7	4,9	3,6	3,1
Government consumption	2,3	1,2	0,4	-0,9	2,2	0,1	-1,4
Fixed capital formation	3,3	2,2	5,9	7,1	8,0	4,4	4,0
— Construction	2,7	-0,3	4,7	5,1	5,2	2,1	2,2
— Equipment	4,3	5,6	7,7	9,7	11,4	7,1	6,1
Exports of goods and services	-0,5	0,7	5,2	9,9	13,3	8,9	3,2
Imports of goods and services	3,1	4,3	5,9	8,6	12,0	9,9	5,6
GDP	2,3	1,8	3,7	3,3	4,3	3,1	2,0
Contributions to growth							
Final domestic demand	3,1	2,7	3,2	2,5	4,8	3,0	2,4
Stockbuilding	0,3	0,1	0,5	0,5	-1,3	0,1	0,3
Foreign balance	-1,0	-1,0	-0,1	0,5	0,8	0,0	-0,7
GR³ Demand components							
Private consumption	0,3	0,9	3,7	2,6	1,7	0,9	1,0
Government consumption	-0,6	1,8	5,6	5,0	1,5	1,0	1,0
Fixed capital formation	-6,2	-7,8	9,0	8,6	2,9	2,9	4,7
— Construction	-0,7	-8,0	7,6	2,1	2,0	2,0	3,5
— Equipment	-12,6	-7,7	10,8	17,3	4,0	4,0	6,0
Exports of goods and services	14,0	16,0	7,6	5,2	3,8	4,6	5,7
Imports of goods and services	3,8	16,6	6,5	10,2	5,8	3,7	4,4
GDP	0,8	-0,1	4,0	2,6	1,2	1,0	1,5
Contributions to growth							
Final domestic demand	-1,1	-0,4	5,0	4,2	2,0	1,3	1,7
Stockbuilding	-1,0	-0,7	0,8	2,5	0,3	-0,1	0,0
Foreign balance	1,7	-1,8	-0,5	-2,6	-1,0	-0,2	-0,1
E⁶ Demand components							
Private consumption	3,6	5,5	4,5	5,5	4,0	2,7	3,1
Government consumption	5,7	8,7	5,0	5,5	4,3	3,0	3,0
Fixed capital formation	10,0	14,6	14,0	13,6	8,9	5,2	6,2
— Construction	6,5	10,0	12,6	13,3	11,5	6,0	7,0
— Equipment	15,8	24,2	16,5	14,1	5,4	4,0	5,2
Exports of goods and services	1,3	5,9	6,3	4,4	2,4	3,8	5,9
Imports of goods and services	16,5	20,4	15,2	17,5	10,0	5,6	7,5
GDP	3,3	5,5	5,0	4,9	3,5	2,5	3,2
Contributions to growth							
Final domestic demand	5,0	7,7	6,8	7,6	5,4	3,5	4,1
Stockbuilding	0,9	0,7	0,3	-0,0	0,1	-0,2	0,0
Foreign balance	-3,2	-3,5	-2,7	-4,2	-2,0	-0,7	-0,8
F⁴ Demand components							
Private consumption	3,4	2,5	2,5	3,1	3,0	2,7	2,9
Government consumption	1,7	2,9	2,2	1,5	2,2	1,8	1,9
Fixed capital formation	3,5	3,8	7,5	5,9	3,8	3,3	4,5
— Construction	3,1	3,7	6,2	4,5	3,0	2,1	3,4
— Equipment	2,8	4,1	8,9	6,9	4,5	4,1	5,3
Exports of goods and services	-1,0	2,7	7,2	11,0	5,1	4,1	4,4
Imports of goods and services	6,5	7,6	7,5	8,3	6,7	4,4	5,3
GDP	2,1	1,8	3,3	3,6	2,5	2,5	2,8
Contributions to growth							
Final domestic demand	3,1	2,9	3,5	3,5	3,1	2,7	3,1
Stockbuilding	0,8	0,2	0,1	-0,1	-0,1	0,0	0,0
Foreign balance	-1,8	-1,2	-0,2	0,4	-0,5	-0,2	-0,4
IRL⁵ Demand components							
Private consumption	2,5	2,5	3,2	5,2	3,5	3,5	3,7
Government consumption	2,4	-3,8	-4,3	-3,5	0,5	0,5	0,5
Fixed capital formation	-3,0	-0,7	0,3	12,1	10,2	6,5	6,7
— Construction	-3,1	-6,7	-6,8	9,8	10,6	6,7	6,8
— Equipment	-0,3	2,7	2,8	14,1	9,8	6,3	6,5
Exports of goods and services	2,9	13,4	8,7	10,1	4,4	6,2	4,3
Imports of goods and services	5,6	5,0	3,9	10,9	7,0	4,5	5,2
GDP	-0,3	4,9	3,7	5,9	4,5	2,3	3,7
Contributions to growth							
Final domestic demand	1,3	0,7	1,2	4,6	4,0	3,3	3,6
Stockbuilding	-0,1	-1,1	-1,0	1,3	1,9	-2,6	0,4
Foreign balance	-1,6	5,3	3,5	0,4	-1,3	1,6	-0,3
I⁴ Demand components							
Private consumption	4,5	4,3	4,2	3,8	3,0	2,8	3,2
Government consumption	2,9	3,6	3,0	0,5	1,5	1,5	1,8
Fixed capital formation	1,6	6,8	4,9	5,1	3,0	3,3	4,1
— Construction	1,1	-0,4	3,7	3,6	2,5	2,5	2,5
— Equipment	1,6	14,6	6,4	6,3	3,4	4,0	5,3
Exports of goods and services	2,4	3,2	5,3	10,1	5,3	4,2	4,8
Imports of goods and services	5,0	10,6	7,8	9,6	6,2	5,4	6,2
GDP	2,5	3,0	3,9	3,2	2,6	2,3	2,7
Contributions to growth							
Final domestic demand	3,6	4,7	4,2	3,6	2,9	2,8	3,3
Stockbuilding	-0,4	0,2	0,5	-0,3	0,2	0,1	0,1
Foreign balance	-0,6	-1,8	-0,8	-0,2	-0,5	-0,6	-0,7

	1986	1987	1988	1989	1990	1991	1992
L⁵ Demand components							
Private consumption	2,4	4,1	1,8	3,3	3,7	4,8	3,6
Government consumption	3,3	2,6	3,1	3,0	3,0	3,0	3,0
Fixed capital formation	28,7	6,5	3,2	11,5	10,0	5,6	5,2
— Construction	8,9	-0,5	9,9	8,8	8,2	5,1	4,6
— Equipment	74,6	13,9	-5,4	14,9	12,0	6,3	5,8
Exports of goods and services	4,2	5,2	8,9	7,7	3,2	3,5	4,8
Imports of goods and services	4,2	7,4	7,6	7,1	4,9	4,9	5,4
GDP	4,4	2,8	4,3	6,1	3,2	2,9	3,3
Contributions to growth							
Final domestic demand	7,2	4,3	2,3	5,0	4,9	4,6	3,9
Stockbuilding	-3,0	0,7	0,3	0,0	0,0	-0,2	0,0
Foreign balance	0,2	-2,1	1,7	1,0	-1,8	-1,5	-0,6

NL⁴ Demand components							
Private consumption	3,2	3,1	1,2	2,5	4,1	2,3	2,5
Government consumption	2,5	2,0	-0,0	-0,0	0,4	-0,1	-0,1
Fixed capital formation	7,9	0,7	9,8	3,9	2,9	0,8	2,5
— Construction	5,0	0,7	11,8	2,6	0,8	-1,6	2,4
— Equipment	10,1	1,3	6,8	5,5	5,5	3,5	2,6
Exports of goods and services	3,4	4,1	7,8	5,5	5,3	4,4	5,4
Imports of goods and services	3,6	6,1	7,0	6,0	6,1	3,9	4,9
GDP	2,0	1,1	2,7	4,0	3,4	2,0	2,5
Contributions to growth							
Final domestic demand	3,8	2,3	2,7	2,4	3,1	1,5	2,0
Stockbuilding	-1,8	-0,3	-0,8	1,4	0,7	0,1	0,0
Foreign balance	0,0	-1,0	0,8	-0,1	-0,4	0,4	0,5

P⁷ Demand components							
Private consumption	5,6	5,4	6,6	3,3	4,5	3,0	3,3
Government consumption	7,2	4,9	5,3	1,5	1,5	1,0	1,5
Fixed capital formation	10,9	15,1	15,0	8,3	9,1	6,3	7,1
— Construction	8,7	9,4	10,1	7,5	7,0	4,5	5,5
— Equipment	14,2	22,2	20,7	9,0	11,0	8,0	8,5
Exports of goods and services	6,8	8,6	10,2	16,6	10,3	6,8	6,1
Imports of goods and services	16,9	20,0	16,1	10,8	10,9	6,5	6,7
GDP	4,1	5,3	3,9	5,4	4,2	3,2	3,8
Contributions to growth							
Final domestic demand	7,3	8,0	9,2	4,9	5,6	3,9	4,4
Stockbuilding	1,3	3,2	-0,8	0,4	-0,1	-0,1	0,2
Foreign balance	-4,5	-6,0	-4,5	0,5	-1,3	-0,6	-0,9

	1986	1987	1988	1989	1990	1991	1992
UK⁵ Demand components							
Private consumption	5,6	5,4	6,9	3,9	2,4	1,1	1,9
Government consumption	2,1	1,2	0,4	0,8	2,5	1,9	1,6
Fixed capital formation	1,9	8,8	13,1	4,8	-1,2	-1,6	2,5
— Construction	6,0	10,4	6,1	-0,4	-2,2	-0,8	1,6
— Equipment	-1,9	7,6	17,7	10,0	-0,3	-2,3	3,3
Exports of goods and services	4,1	5,2	0,7	4,3	5,1	1,7	3,2
Imports of goods and services	6,7	7,7	12,3	7,0	2,5	0,5	4,1
GDP	3,5	4,7	4,1	2,2	1,5	0,7	2,4
Contributions to growth							
Final domestic demand	4,2	5,1	6,7	3,6	1,9	0,8	2,0
Stockbuilding	0,0	0,1	0,7	-0,2	-0,9	-0,4	0,8
Foreign balance	-0,7	-0,7	-3,4	-1,0	0,6	0,3	-0,4
EUR Demand components							
Private consumption	4,0	3,8	3,9	3,3	3,4	2,5	2,7
Government consumption	2,4	2,6	1,7	0,9	2,1	1,3	0,9
Fixed capital formation	3,8	5,5	8,4	6,8	4,4	2,9	4,2
— Construction	3,7	3,1	6,4	4,7	3,6	2,0	3,2
— Equipment	3,5	8,4	10,4	8,9	5,1	3,7	5,2
Exports of goods and services	2,0	3,9	5,4	8,1	7,0	5,0	4,3
Imports of goods and services	6,2	8,4	8,6	9,0	7,1	5,1	5,5
GDP	2,6	2,9	3,8	3,3	2,9	2,2	2,5
Contributions to growth							
Final domestic demand	3,6	3,9	4,4	3,6	3,4	2,4	2,8
Stockbuilding	0,1	0,2	0,3	0,1	-0,4	-0,1	0,2
Foreign balance	-1,2	-1,4	-1,1	-0,5	-0,3	-0,2	-0,6

- ¹ Percentage change on preceding year.
² Change as a percentage of GDP of preceding period.
³ 1970 prices.
⁴ 1980 prices.
⁵ 1985 prices.
⁶ 1986 prices.
⁷ 1988 prices.

* Notes: see page 15.

Notes on technicalities, concepts and sources

1. Directorate General II 'Economic and Financial Affairs' regularly produces, under its own responsibility, short-term economic forecasts. These forecasts cover the principle macro-economic aggregates of the Member States and of the Community as a whole, in addition to the international environment. Although the forecasts primarily serve as a support to the internal work of the Commission and its services, they also form the subject-matter of a regular publication in the Supplement A series 'Economic Trends' of 'European Economy'.

2. Concepts and sources

The sources for the tables and graphs are the Commission's services, except where otherwise indicated.

All figures for 1990, 1991 and 1992 are obviously forecasts.

The historical part of the time series presented in the tables (in the present case, until 1989) is based on ESA national accounts (European System of Integrated Economic Accounts) which are published once a year by Eurostat. In the prospective part (1990 estimates, 1991 and 1992 forecasts) the concepts are generally in line with national economic accounting practice and, therefore, do not always follow the ESA definitions.

Since October 1989, the rates of unemployment presented in table 18, both for the historical part and the forecast, are based on the definition of the Statistical Office of the European Communities (SOEC), which relies on labour survey data.

3. Community (EC) data are generally aggregated using Purchasing Power Standards (PPS). For aggregates at constant prices, 1985 PPS are used. The aggregation in the tables 'Current Balance as % of GDP' and 'GNP at Market Prices' is made using current exchange rates.

4. Technical Notes

The world *geographical zones* are defined as follows:

- EFTA: Austria, Finland, Iceland, Norway, Sweden and Switzerland
- OECD: EC, EFTA, USA, Canada, Japan, Australia, New Zealand and Turkey
- Countries in Central and Eastern Europe (CCEE): Bulgaria, Czechoslovakia, GDR, Hungary, Poland, Romania, USSR and Yugoslavia
- OPEC: Algeria, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates and Venezuela
- Dynamic Asian Economies (DAE): Hong Kong, Korea, Malaysia, Singapore, Taiwan and Thailand
- Other Asia: all except: DAE's, Indonesia, Iran, Iraq, Kuwait, Qatar, Saudi Arabia and UAE.
- Latin America: all except: Ecuador and Venezuela
- Africa: all except: Algeria, Gabon, Libya and Nigeria.

In the ESA definition of 'General Government' social security is included but public enterprises are excluded.

The employment statistics refer to the number of occupied persons except in the Netherlands where they refer to man-years.

In the 'imports' and 'exports' tables, the EC figures include both intra- and extra-Community trade.

Principal economic policy measures — October 1990

Community (EUR-12)

4.10 The Commission adopts a communication concerning the realisation of the SAVE programme (Specific Actions for Vigorous Energy Efficiency) which aims at energy savings and efficiency.

30.10 The Commission adopts a communication concerning industrial policy in the perspective of the single market.

Belgium (B)

9.10 The central bank cuts, in two stages, the interest rates for one-, two-, and three-month Treasury bills by 0,10 of a percentage point. This takes the rate for three-month bills, considered to be the main instrument for guiding monetary policy, from 8,9 % to 8,85 %.

19.10 The Government indexes rateable values from 1991. The 1991 index will be based on a comparison of the consumer price index in 1990 with the 1988/89 average (5 %). Subsequent indexation will be carried out by reference to the previous year's price index.

Denmark (DK)

None.

Germany (D)

None.

Greece (GR)

16.10 The percentage of deposits reserved by commercial banks for the financing of public enterprises is reduced to 6 %, from 1 November; from 1 January 1991 it will be further reduced to 3 % and will be completely abolished on 1 April 1991.

22.10 The Parliament approves legislation establishing a legal framework for factoring and forfeiting operations.

24.10 Investment banks are allowed to accept term deposits in Drachma or foreign currency under certain conditions.

Spain (E)

None.

France (F)

15.10 Parliament adopts a government draft law concerning profit sharing payments, which are exempt from social security contributions. The law limits such payments to 10 % of the gross wage bill and 15 % for firms operating wage agreements under three years. The limit was previously 20 % in all cases.

16.10 The National Credit Council ratifies a wide-ranging reform of monetary policy under which monetary aggregates are redefined and compulsory reserves are substantially reduced. The aggregate M3 which now includes assets of resident enterprises and individuals in the form of new products for short-term financial investment and investments in the form of popular savings plans will, from January 1991, be the main variable targeted by the monetary authorities.

Ireland (IRL)

20.10 The Central Bank announces a reduction in the interest rate on short-term facility from 11 % to 10,5 %. The move reflects confidence in the level of external reserves and reduced fears of outflows from the economy following the entry of Sterling to the ERM.

Italy (I)

15.10 From 15 October commercial banks will be allowed to dispose freely of up to 3 % of their reserves at the Central Bank provided that reserve requirements are met on a monthly average basis.

Luxembourg (L)

4.10 A pay agreement concluded in the public sector (retrospective to 1 January 1990) will increase the wage bill by some 6 %. The main provisions are a 2,5 % increase in wage and pension rates (cost: LFR 1 075 million), payment of 'half a thirteenth' month's wages (LFR 841 million), an increase in family allowances (LFR 156 million), an increase in the start-of-career salary (LFR 30 million) and a rise in the night work allowance (LFR 4 million).

5.10 The government approves a draft law under which pensions are increased by 10 % from 1 January 1991 and the rules governing admission to the early retirement scheme are made more flexible: the additional cost is estimated at LFR 4 billion.

Netherlands (NL)

None.

Portugal (P)

15.10 The Government presents the draft budget for 1991 to Parliament. The projected deficit is Esc 613 billion, decreasing from 6,5 % of GDP in 1990 (last official forecast) to 6,3 % in 1991. Expenditure will increase by 16 %, the priorities being education and health; central government investment will rise by 20 %. The tax burden on households will be eased, mainly by raising income tax allowances and thresholds above the inflation rate target (11,0 %); a marginal decrease in the corporate income tax rate (from 36,5 % to 36 %) is also projected. Other macroeconomic targets for 1991 have also been announced: GDP growth of 3,5 % and current account deficit of 2,8 % of GDP.

United Kingdom (UK)

8.10 Sterling enters the exchange rate mechanism of the EMS. The Community approves the British government's proposal of 5 October for a central rate of DM 2,95 and 'transitional' 6 % margins. To coincide with ERM entry and announced with it on 5 October, the Bank of England reestablishes its minimum lending rate at 14 % from 8 October, one percentage point below the then level of banks' base rates. Banks' base rates and some mortgage rates immediately matched the fall.

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